PENNSYLVANIA'S STATE SYSTEM OF HIGHER EDUCATION

FINANCIAL STATEMENTS
JUNE 30, 2017

Pennsylvania's State System of Higher Education
Financial Statements
June 30, 2017

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Governors
Pennsylvania State System of Higher Education
Harrisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of Pennsylvania's State System of Higher Education ("the State System"), a component unit of the Commonwealth of Pennsylvania as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the State System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain of the discretely presented component units, which represent 82.3% percent, 85.9% percent, and 79.6% percent, respectively, of the 2017 assets, net assets, and revenues and 85.5% percent, 94.7% percent, and 86.4% percent, respectively, of the 2016 assets, net assets, and revenues of the discretely presented component units. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Board of Governors
Pennsylvania's State System of Higher Education

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of the State System as of June 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-20, schedules of funding progress for OPEB on page 52, schedules of proportionate share of SERS/PSERS Net Pension Liability and SERS/PSERS schedules of contributions on pages 53-54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Harrisburg, Pennsylvania
September 26, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

As the Commonwealth of Pennsylvania's (Commonwealth) public four-year higher education institutions, the 14 universities of Pennsylvania's State System of Higher Education (State System) are charged with providing high-quality education at the lowest possible cost to the students. With more than 100,000 degree-seeking students enrolled, and thousands more enrolled in certificate and other career-development programs, the State System is the state's largest higher education provider. The 14 universities offer the lowest-cost four-year baccalaureate degree programs in the state, with 1,085 degree programs in more than 300 academic areas. The universities function independently, but being part of the State System enables them to share resources and benefit from economies of scale.

The State System financial statements comprise:
- Bloomsburg University of Pennsylvania
- California University of Pennsylvania
- Cheyney University of Pennsylvania
- Clarion University of Pennsylvania
- East Stroudsburg University of Pennsylvania
- Edinboro University of Pennsylvania
- Indiana University of Pennsylvania
- Kutztown University of Pennsylvania
- Lock Haven University of Pennsylvania
- Mansfield University of Pennsylvania
- Millersville University of Pennsylvania
- Shippensburg University of Pennsylvania
- Slippery Rock University of Pennsylvania
- West Chester University of Pennsylvania
- Office of the Chancellor

The universities operate branch campuses in Oil City (Clarion), Freeport and Punxsutawney (Indiana), and Clearfield (Lock Haven), and offer classes and programs at several regional centers, including the Dixon University Center in Harrisburg and Center City in Philadelphia.

Following is an overview of the State System's financial activities for the year ended June 30, 2017, as compared to the year ended June 30, 2016.

FINANCIAL HIGHLIGHTS
In fiscal year 2016/17, the State System received $444.2 million in General Fund **appropriations** from the Commonwealth. Although this represents a 2.5% increase over the $433.4 million received in the prior fiscal year, it is approximately $60 million less than received in fiscal year 2007/08, just before the onset of the recession that severely impacted both the state and national economies and led to several years of funding cuts to the State System.

The State System received a $16.1 million Realty Transfer Tax allocation from the Commonwealth's **Key '93** (Keystone Recreation, Park and Conservation) Fund, an increase of $0.8 million, or 5.2%, from fiscal year 2015/16. With the exception of fiscal years 2010/11 and 2009/10, when no funding was received, Key '93 funds have provided a consistent revenue stream for university deferred maintenance projects since 1993.

The State System was allocated $65 million in **Commonwealth capital funding**, primarily for renovation or replacement of existing educational and general (E&G) buildings. With the exception of fiscal years 2010/11 and 2009/10, when the Commonwealth's capital funding for the State System was $130 million in each year, the State System has received $65 million annually in Commonwealth capital funding since fiscal year 2000/01. Annual funding is expected to remain at $65 million in fiscal year 2017/18. The capital appropriations reflected in these statements represent Key '93 funds, as well as furnishings and equipment for Commonwealth-funded construction projects, and total $16.1 million and $15.7 million in fiscal years 2016/17 and 2015/16, respectively.

To reward the universities for demonstrated success and continued improvement in student achievement, university excellence, and operational efficiency, the State System's Board of Governors (Board) allocated $39.1 million of the general fund appropriation for **performance funding** in fiscal year 2016/17, or 1.5% more than the $38.5 million allocated in fiscal year 2015/16. Performance funding allocated in fiscal year 2014/15 was $37.4 million.

Fall 2016 student headcount was 104,779, a decrease of 2,347 students, or 2.2%, from fall 2015. This is the sixth year in a row that the State System has experienced an **enrollment decline**. Fall 2011 was the first year enrollment had declined since 1999, following 14 years of record growth.

Year	Fall Enrollment	% Decrease from Prior Year
2016	104,779	2.2%
2015	107,126	2.3%
2014	109,606	2.2%
2013	112,028	2.1%
2012	114,471	3.2%
2011	118,224	1.0%

Of the 104,779 **students** enrolled in fall 2016, 83% (86,905) were full-time and 17% (17,874) were part-time students; 86% (89,802) were undergraduate and 14% (14,977) were graduate students. Of the undergraduates, 90% were traditional students and 10% were non-traditional students (25 years of age or older). These percentages are approximately the same as in fall 2015 and fall 2014.

In academic year 2015/16, the State System awarded 24,985 **degrees**, comprising 19,397 bachelor's degrees, 5,075 master's degrees, 168 doctoral degrees, and 345 associate's degrees. This is a 2% decrease from the 25,556 degrees awarded in academic year 2014/15 and 25,516 degrees awarded in academic year 2013/14.

Continuing efforts by the universities to contain their costs, combined with a second straight year of increased investment by the Commonwealth, helped enable the Board to approve the **smallest percentage tuition increase in more than a decade**. The $89-per-semester increase approved for the 2016/17 academic year set the base tuition rate for most full-time Pennsylvania residents—who comprise about 90% of all State System students—at $3,619 per semester, or $7,238 for the full year. Even with this increase, the State System universities will remain the lowest-cost option among all four-year colleges and universities in the state. The 2016/17 increase of 2.5% compares to an increase of 3.5%, or $240, in fiscal year 2015/16.

Nonresident undergraduate tuition also increased by 2.5% and ranged from $10,858 to $18,096 for the 2016/17 academic year, depending on a variety of factors, including the university and program in which a student enrolled, academic preparation, and state of residency. The resident **graduate tuition rate** was $483 per credit, an increase of $13. The nonresident graduate tuition rate increased by $20 per credit to $725.

The Board approved a $12 increase to the **technology tuition fee (**$448 annually) for full-time resident undergraduate students and an $18 increase ($682 annually) for full-time nonresident undergraduate students. All funds raised by the technology tuition fee are used to directly benefit student learning. Universities have used the funds to install new computer labs and design multimedia classrooms, among other projects.

Mandatory student fees set by the universities increased, on average, by 6.9%. These increases, combined with the increase in tuition and reduction in enrollment, resulted in tuition and mandatory fee revenue (before discounts) of $1.11 billion, a 1.8% increase over fiscal year 2015/16. The average increase in mandatory student fees in fiscal year 2015/16 was 4.4% over the prior year.

Auxiliary revenue from **room and board fees** (excluding privatized housing revenue recorded by affiliates) was $274.0 million in fiscal year 2016/17, an increase of $8.5 million, or 3.2%, over fiscal year 2015/16. This compares to a fiscal year 2015/16 increase of 0.1%, or $0.2 million, in room and board revenues over the prior fiscal year. The increases can be attributed in part to the additional room fees that have resulted from the acquisition of student housing from affiliated organizations for some universities.

The State System's typical **price of attendance** (tuition, mandatory fees, room, and board) of $20,757 in 2016/17 was $667 above the average among all four-year public universities in the United States and $1,493 below the average in the Middle States region (Delaware, Maryland, New Jersey, New York, Pennsylvania, and Washington, D.C.), according to the latest College Board survey.

The State System purchased $382.0 million in **capital assets** in fiscal year 2016/17, which included $349.7 million to build or improve academic and auxiliary facilities across all 14 universities.

During fiscal year 2016/17, the State System issued Series AT bonds, totaling $298.1 million, to undertake various **capital projects** at the universities, comprising:

- Acquisition of affiliate-owned student housing of $107.8 million at Edinboro, $79.2 million at Mansfield, and $35.7 million at Lock Haven.
- $2.3 million for renovations of the student housing acquired from Edinboro's affiliate.
- $41.4 million for new student housing and $3.6 million for a steam plant upgrade at Bloomsburg.
- $19.1 million for dining hall additions and renovations at Indiana.
- $7.3 million to renovate an academic building and $1.7 million for technology infrastructure at Slippery Rock.

Bond principal of $67.8 million and bond interest of $47.9 million were paid, bringing the total outstanding **bond debt** to $1.07 billion at June 30, 2017.

The State System's outstanding bonds are assigned an Aa3 rating from Moody's Investors Service, Inc. and an AA- rating from Fitch Ratings. In August 2017, both Moody's and Fitch revised their outlooks for the ratings **from stable to negative**.

THE FINANCIAL STATEMENTS

Balance Sheet

The *Balance Sheet* reports the balances of the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the State System as of the end of the fiscal year.

- *Assets* include cash; investments reported at market value; the value of outstanding receivables due from students and other parties; and land, buildings, and equipment reported at cost, less accumulated depreciation.

- *Deferred Outflows of Resources*, which is defined as a consumption of net position that applies to future periods, reports the deferred loss on bond defeasance and certain items associated with the net pension liability and annual pension expense.

- *Liabilities* include payments due to vendors, employees, and students; revenues received but not yet earned; the balance of bonds payable; and amounts estimated to be due for items such as workers' compensation (the State System is self-insured), compensated absences (the value of sick and annual leave earned by employees), pension benefits, and other postretirement benefits (health and tuition benefits expected to be paid to certain current and future retirees).

- *Deferred Inflows of Resources*, which is defined as an acquisition of net position that applies to future periods, reports the deferred gain on bond defeasance and certain items associated with the net pension liability and annual pension expense.

- *Net Position*, informally referred to as *Net Assets* or *Fund Balance* (as it was previously called), is the sum of Assets plus Deferred Outflows of Resources less Liabilities less Deferred Inflows of Resources.

Statement of Revenues, Expenses, and Changes in Net Position

The *Statement of Revenues, Expenses, and Changes in Net Position* reports the revenues earned and the expenses incurred during the fiscal year. The result is reported as an increase or decrease in net position.

In accordance with GASB requirements, the State System has classified revenues and expenses as either operating or nonoperating. GASB has determined that all public colleges' and universities' **state appropriations are nonoperating revenues**. In addition, GASB requires classification of gifts, Pell grants, investment income and expenses, unrealized gains and losses on investments, interest expense, and losses on disposals of assets as nonoperating. The State System classifies all of its remaining activities as operating.

Statement of Cash Flows

The *Statement of Cash Flows* provides information about the State System's cash receipts and cash payments. It can be used to determine the State

System's ability to generate future net cash flows and meet its obligations as they come due and its need for external financing.

Net Position

In accordance with GASB requirements, the State System reports three components of net position:

- *Net investment in capital assets*, informally referred to as *NIP* (from its former name, *Net Investment in Plant*), is the cost of land, buildings, improvements, equipment, furnishings, and library books, net of accumulated depreciation, less any associated debt (primarily bonds payable). This balance is not available for the State System's use in ongoing operations, since the underlying assets would have to be sold in order to use the balance to pay current or long-term obligations. The Commonwealth prohibits the State System from selling university land and buildings without prior approval.

- *Restricted* net position represents the portion of balances of funds received from the Commonwealth, donors, or grantors who have placed restrictions on the purpose for which the funds must be spent. *Nonexpendable* restricted net position represents the corpus of endowments and similar arrangements in which only the associated investment income can be spent. *Expendable* restricted net position represents the portion of restricted funds that is available for expenditure as long as any external purpose and time restrictions are met.

- *Unrestricted* net position includes funds that the Board or university presidents have designated for specific purposes, auxiliary funds, and all other funds not appropriately classified as restricted or invested in capital assets.

  Unrestricted net position includes three unfunded liabilities. Because these liabilities are expected to be realized gradually over future years, and because of their size, the universities fund them only as they become due.

  - The liability for **compensated absences** represents the dollar value of annual and sick leave that employees have earned and could potentially receive in the form of cash payouts upon retirement or other termination. The dollar value is based on an employee's current salary. All full-time employees are eligible to be paid, upon termination, for the dollar value of the number of days of unused annual, personal, and holiday leave that they have accumulated, with a maximum annual leave accumulation of 45 days; the associated liability is calculated based on the total number of days that employees have accumulated at June 30. Sick leave payouts, however, are subject to vesting requirements, and the dollar value of accumulated unused sick leave is paid only to those employees who meet certain service and/or age requirements and is capped at various levels depending upon the number of days accumulated. The associated liability is estimated based on a calculation of historical leave payouts for terminated employees compared to the dollar value of sick days that the terminated employees had accumulated, applied to employees' current leave balances.

    As employees earn and accumulate leave, the compensated absences liability is increased; as employees use leave, and as terminated employees receive payouts, the liability is decreased. The compensated absences liability increased by $4.1 million to $119.5 million for the year ended June 30, 2017, compared to a $0.8 million increase from the prior year for the year ended June 30, 2016. Universities fund this liability only as cash payouts are made to employees for annual and vested sick leave balances upon termination or retirement.

  - The liability for **other postretirement benefits** represents the estimated future healthcare costs for current and future retirees who participate in the State System healthcare plan. The annual increase in the liability is the amount that current employees earn each fiscal year as a retiree healthcare benefit, actuarially calculated based on years of service, age, and estimates of future service and employee longevity. The liability also increases as healthcare costs increase. The liability decreases when required contributions by retirees are increased, when the number of eligible employees decreases, and when retirees die. The liability increased by $38.5 million to $1.15 billion for the year ended June 30, 2017, compared to an increase of $47.9 million for the year ended June 30, 2016. Universities fund this liability on a "pay-as-you-go" basis; that is, they make biweekly contributions to fund the actual claims incurred by retirees during the year.

- The **net pension liability** is the State System's allocated share of the difference between the Commonwealth's defined benefit pension obligations and the funding set aside in a qualified trust to pay the future benefits that are promised to current employees, retirees, and their beneficiaries. The annual increase in the liability is the amount that current employees earn each fiscal year as a pension benefit, actuarially calculated based on years of service, age, and estimates of future service and employee longevity. The liability decreases when funding of the qualified trust increases and when employees or retirees leave the pension plans. The liability increased by $83.9 million to $1.02 billion for the year ended June 30, 2017, compared to an increase of $139.9 million for the year ended June 30, 2016. Like the postretirement benefits liability, universities fund this liability on a "pay-as-you-go" basis with annual contractually required contributions to the State Employees Retirement System (SERS) and the Public School Employees Retirement System (PSERS).

Overall, net position decreased by $126.9 million in fiscal year 2016/17. This compares to a decrease from the prior year of $63.4 million in fiscal year 2015/16, and a decrease of $797.5 million in fiscal year 2014/15 (which included a $720.9 million net pension liability restatement) over fiscal year 2013/14.

Following is a summary of the balance sheet at June 30, 2017, 2016, and 2015.

(in millions)

Balance Sheet

	June 30, 2017	**Change from Prior Year**	**June 30, 2016**	**Change from Prior Year**	**June 30, 2015**	**Change from Prior Year**
Assets						
Cash and investments	$1,365.7	(0.8%)	$1,376.2	3.2%	$1,333.9	(2.1%)
Capital assets, net	1,899.4	14.9%	1,653.3	4.0%	1,589.2	(1.7%)
Other assets and deferred outflows	424.8	12.8%	376.6	42.7%	263.9	42.8%
Total assets and deferred outflows	$3,689.9	8.3%	$3,406.1	6.9%	$3,187.0	0.7%
Liabilities						
Workers' compensation	$20.4	(7.7%)	$22.1	(2.2%)	$22.6	4.1%
Compensated absences	119.5	3.6%	115.4	0.7%	114.6	(0.1%)
Postretirement benefits	1,145.1	3.5%	1,106.6	4.5%	1,058.7	5.1%
Net pension liability	1,022.5	8.9%	938.6	17.5%	798.7	N/A
Bonds payable	1,072.9	27.3%	842.6	5.3%	800.5	(6.9%)
Other liabilities and deferred inflows	558.4	11.1%	502.8	11.6%	450.4	6.7%
Total liabilities and deferred inflows	3,938.8	11.6%	3,528.1	8.7%	3,245.5	33.8%
Net Position						
Net investment in capital assets	722.4	1.8%	709.3	1.3%	700.3	2.3%
Restricted	121.3	6.0%	114.4	16.6%	98.1	(5.0%)
Unrestricted	(1,092.6)	15.5%	(945.7)	(10.4%)	(856.9)	(1,659.5%)
Total net position	(248.9)	104.0%	(122.0)	(108.5%)	(58.5)	(107.9%)
Total liabilities, deferred inflows, and net position	$3,689.9	8.3%	$3,406.1	6.9%	$3,187.0	0.7%

Revenues and Gains
Following is a summary of revenues and gains for the years ending June 30, 2017, 2016, and 2015.

(in millions)

Revenues and Gains

	June 30, 2017	Change from Prior Year	June 30, 2016	Change from Prior Year	June 30, 2015	Change from Prior Year
Operating revenues						
Tuition and fees, net	$855.7	2.0%	$839.0	2.7%	$816.6	0.9%
Grants and contracts	158.1	1.7%	155.5	3.2%	150.7	(6.3%)
Auxiliary enterprises, net	327.8	1.4%	323.4	(0.2%)	324.0	(2.2%)
Other	59.8	29.7%	46.1	(12.4%)	52.6	(1.1%)
Total operating revenues	1,401.4	2.7%	1,364.0	1.5%	1,343.9	(0.8%)
Nonoperating revenues and gains						
State appropriations	460.3	2.5%	449.1	5.3%	426.4	(0.2%)
Investment income, net	35.0	45.8%	24.0	(22.6%)	31.0	18.3%
Unrealized gain on investments	-	(100.0%)	2.6	-	-	-
Gifts, nonoperating grants, and other	172.7	(7.5%)	186.7	6.9%	174.6	4.3%
Total nonoperating revenues and gains	668.0	0.8%	662.4	4.8%	632.0	1.8%
Total revenues and gains	$2,069.4	2.1%	$2,026.4	2.6%	$1,975.9	-

Overall, fiscal year 2016/17 **operating revenues** increased by 2.7% from the prior fiscal year. Nonoperating revenues increased by 0.8%, for an overall increase in revenues and gains of 2.1%.

Tuition and fees are shown net of scholarship discounts and allowances and bad debt expense. In accordance with a formula prescribed by the National Association of College and University Business Officers (NACUBO), the State System allocates the cost of scholarships, waivers, and other student financial aid between scholarship discounts and allowances and student aid expense. Scholarships and waivers of room and board fees are reported in Auxiliary enterprises. The cost of tuition waivers granted to employees is reported as employees' benefits expense. Bad debt expense is an estimate of the amount owed by students that will not be collected.

Despite the decline in enrollment, overall net tuition and fee revenue increased by $16.7 million, or 2.0%, over fiscal year 2015/16, which can be attributed to the increase in tuition and fee rates and the flexible tuition pricing programs at several universities.

Auxiliary enterprises revenue, which includes food service sales, housing fees, and fees for the operation, maintenance, debt service, and renewal of student union and recreation centers, increased by $4.4 million from fiscal year 2015/16. This is due primarily to a $9.3 million, or 6.9%, increase in housing fees, which is due primarily to the additional revenue that some universities are recording as they acquire housing from their affiliates. Without this increase in housing revenue, auxiliary revenue would have decreased by $4.8 million.

State appropriations include cash as well as capital appropriations that are received in the form of noncash furnishings and equipment for the Commonwealth-funded construction projects. The fiscal year 2016/17 general cash appropriation was $444.2 million, a $10.8 million increase over fiscal year 2015/16, while capital appropriations were $16.1 million, a $0.4 million increase over fiscal year 2015/16.

Investment income (net of related investment expenses) for fiscal year 2016/17 was $35.0 million. This represents an increase of $11.0 million from the prior year. The increase is due mostly to rising interest rates during the fiscal year. Rates moved from a low of 0.97% in fiscal year 2015/16 to a high of 1.49% during fiscal year 2016/17. The overall average change in rates from fiscal year 2015/16 to fiscal year 2016/17 was an increase of 16 basis points, or 14.5%. Overall, investment balances remained relatively flat to slightly increasing during the period.

Expenses and Losses
Following is a summary of expenses and losses for the years ending June 30, 2017, 2016, and 2015.

(in millions)

Expenses and Losses

	June 30, 2017	Change from Prior Year	June 30, 2016	Change from Prior Year	June 30, 2015	Change from Prior Year
Operating expenses						
Instruction	$779.8	4.1%	$749.3	1.3%	$739.6	2.6%
Research	6.4	1.6%	6.3	8.6%	5.8	13.7%
Public service	42.5	7.9%	39.4	5.1%	37.5	-
Academic support	185.4	0.8%	184.0	2.7%	179.1	4.2%
Student services	189.6	2.7%	184.7	2.0%	181.0	2.5%
Institutional support	253.0	(1.7%)	257.2	3.5%	248.5	(5.9%)
Operations and maintenance of plant	159.3	(0.4%)	159.9	4.2%	153.5	0.8%
Depreciation	132.3	8.7%	121.7	1.7%	119.7	(0.4%)
Student aid	76.4	(3.4%)	79.1	8.5%	72.9	(3.6%)
Auxiliary enterprises	259.0	2.0%	253.8	(0.7%)	255.7	1.5%
Total operating expenses	2,083.7	2.4%	2,035.4	2.1%	1,993.3	0.9%
Other expenses and losses						
Interest expense on capital asset-related debt	38.2	12.7%	33.9	(7.4%)	36.6	(0.8%)
Loss on disposal/acquisition of assets	54.8	167.3%	20.5	113.5%	9.6	20.7%
Unrealized loss on investment	19.7	-	-	-	13.1	309.4%
Total other expenses and losses	112.7	107.2%	54.4	(8.3%)	59.3	13.6%
Total expenses and losses	$2,196.4	5.1%	$2,089.8	1.8%	$2,052.6	1.2%

Universities spent $779.8 million on **instruction**, or 37.4% of total operating expenses, in fiscal year 2016/17. This represents an increase of $30.5 million, or 4.1%, over fiscal year 2015/16.

Financial aid to students in the form of grants, waivers, and scholarships was $299.9 million in fiscal year 2016/17. In accordance with a formula prescribed by the National Association of College and University Business Officers (NACUBO), in fiscal year 2016/17 the State System reported $223.0 million of financial aid as *discounts,* which are netted against tuition and fees, and $76.9 million as *student aid*, which is reported as an expense. Of these amounts, $1.6 million of discounts and $0.5 million of student aid expense were reported in Auxiliary enterprises.

Including the financial aid that is recorded as a discount against tuition and fees, financial aid increased in fiscal year 2016/17 by $0.5 million from the previous year. Although Federal Pell grants decreased by $4.4 million, and PHEAA grants decreased by $1.6 million over fiscal year 2015/16, universities awarded an additional $2.7 million in restricted and unrestricted scholarships and granted an additional $5.5 million in tuition, housing, and dining waivers. Following is the breakdown of financial aid in fiscal years 2016/17 and 2015/16.

(in millions)

Student Financial Aid

	2016/17	2015/16
Federal Pell grants	$134.2	$138.6
Other federal aid	5.7	5.2
State financial aid including PHEAA grants	91.4	93.0
Local government financial aid	0.4	2.6
Scholarships from endowments and restricted gifts and grants	18.1	17.0
Unrestricted scholarships and fellowships	11.6	10.0
Tuition and fee waivers	36.6	31.4
Housing and dining waivers	1.9	1.6
Total	$299.9	$299.4

Interest expense on capital asset-related debt was $38.2 million, an increase of $4.3 million over fiscal year 2015/16. The increase is attributed primarily to the additional debt incurred in fiscal year 2016/17 by Edinboro, Lock Haven, and Mansfield universities for the acquisition of student housing from their affiliates. Offsetting this increase is the

State System's annual practice of refunding existing debt with debt that carries lower interest rates. Also offsetting debt increases is the faster amortization of the State System's older, more expensive, debt, as a higher ratio of debt service is applied to principal rather than interest in the later years of the payment schedules.

Salaries and benefits totaled $1.4 billion in fiscal year 2016/17. Salary and wage expenses increased by $26.1 million, or 3.0%, while benefits expenses increased by $11.9 million, or 2.3%, over fiscal year 2015/16, for an overall increase of $38.0 million. Following is a summary of salaries, wages, and benefits expenses for the years ending June 30, 2017, 2016, and 2015.

(in millions)

Salaries, Wages, and Benefits

	June 30, 2017	Change from Prior Year	June 30, 2016	Change from Prior Year	June 30, 2015	Change from Prior Year
Salaries and wages	$906.5	3.0%	$880.4	(1.3%)	$892.0	1.4%
Benefits						
Employee healthcare	122.7	(4.5%)	128.5	5.4%	121.9	3.4%
Health & Welfare Fund	8.5	(1.2%)	8.6	2.4%	8.4	(5.6%)
Postretirement healthcare	109.6	(12.3%)	125.0	4.8%	119.3	(18.4%)
SERS	130.6	25.6%	104.0	24.6%	83.5	92.0%
PSERS	20.2	26.3%	16.0	138.8%	6.7	71.8%
Alternative Retirement Plan (ARP)	45.3	3.2%	43.9	(1.6%)	44.6	1.6%
Other benefits	98.4	1.2%	97.2	(2.5%)	99.7	5.4%
Total benefits	535.3	2.3%	523.2	8.1%	484.1	5.5%
Total salaries, wages, and benefits	$1,441.8	2.7%	$1,403.6	2.0%	$1,376.1	2.8%

The $26.1 million increase in **salaries and wages** in fiscal year 2016/17 primarily is the result of the salary increases granted by the Board: $18.9 million represents the increases agreed to in the Association of Pennsylvania State College and University Faculties (APSCUF) contract, with $6.5 million of this amount going to fiscal year 2015/16 retroactive payments; $2.7 million represents increases agreed to in the American Federation of State, County, and Municipal Employees (AFSCME) contract; $1.7 million represents increases granted to nonrepresented employees; $1.1 million represents increases granted to all other bargaining units; and the remaining $1.7 million can be attributed to new hires and promotions.

Total salaried complement, which includes both permanent and temporary employees but excludes wage employees, increased slightly in fall 2016 to 12,193, compared to 12,180 in fall 2015. The universities have reduced staff by 6.4%, or 834 employees, since fall 2008, when total salaried complement was 13,027.

The employer share of **employee healthcare costs**, including the Health & Welfare Fund, decreased 4.3% over fiscal year 2015/16, for a total decrease of $5.9 million. This follows consecutive increases of 5.2% ($6.8 million) and 2.8% ($3.5 million) in fiscal years 2015/16 and 2014/15, respectively, over the prior fiscal years. The fiscal year 2016/17 decrease is the result of design changes to the healthcare plan administered by the State System (System Plan) that increased employees' share of expenses through higher employee premium contributions, copays, deductibles, and coinsurance. The required employer contribution rate to the Commonwealth's Pennsylvania Employee Benefits Trust Fund (PEBTF), which administers the healthcare plan for employees in the AFSCME and State College and University Professional Association (SCUPA) bargaining units, has remained the same since fiscal year 2014/15.

The **postretirement healthcare** expense comprises:

- Premium payments to the Retired Employees Health Program (REHP), which is administered by the PEBTF, primarily for employees in the AFSCME bargaining unit.
- Claims paid to the third-party vendor for the plan administered by the System Plan, primarily for faculty, coaches and athletic staff, nonrepresented employees, and employees in the SCUPA bargaining unit.
- The actuarially calculated expense for the System Plan, in excess of claims paid, to recognize the current year increase in the long-term liability for future benefits expected to be paid from the System Plan for current and future retirees.

(in millions)

Postretirement Healthcare

	2016/17	2015/16	2014/15
REHP premiums paid	$31.9	$37.0	$30.7
System Plan claims paid	39.2	40.1	36.9
System Plan actuarially calculated expense in excess of claims paid	38.5	47.9	51.7
Total	$109.6	$125.0	$119.3

The annual **REHP premiums** decreased 13.8%, or $5.1 million, in fiscal year 2016/17 from 2015/16, following an increase of 20.5%, or $6.3 million, in fiscal year 2015/16 over 2014/15. The contribution rate is set at the discretion of the Commonwealth. The State System currently does not record a liability for future benefits related to the REHP plan, but will be required to do so beginning in fiscal year 2017/18 in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The amount of the liability is not known but is expected to be significant.

The monthly cash payments made to a third-party health insurance vendor for the **System Plan** are based on estimates of retiree healthcare claims that are agreed to by the State System and the third-party vendor and are adjusted in the following year for the actual claims paid on behalf of retirees. Despite the increasing population of retirees and rising healthcare costs, the State System has seen flat or declining healthcare spending from retirees for the last several years.

Following is a schedule of postretirement medical benefits annual payments, expense, and liability for the years ending June 30, 2017, 2016, and 2015, for the System Plan.

(in millions)

System Plan Postretirement Medical Benefits (referred to as Other Postemployment Benefits or OPEB)

	June 30, 2017	Change from Prior Year	June 30, 2016	Change from Prior Year	June 30, 2015	Change from Prior Year
Claims paid ("pay-as-you-go")	$39.2	(2.2%)	$40.1	8.7%	$36.9	(16.6%)
Annual OPEB cost (actuarial expense reported)	$77.7	(11.7%)	$88.0	(0.7%)	$88.5	(24.7%)
Net OPEB obligation (liability reported on the balance sheet)	$1,145.1	3.5%	$1,106.6	4.5%	$1,058.7	5.1%
Accrued actuarial liability (total liability as estimated by actuaries)	$1,106.8	(7.4%)	$1,194.8	-	$1,194.8	(18.9%)

- **Employer contributions to SERS**, a defined benefits pension plan, increased 21.4% over fiscal year 2015/16, for a total increase of $14.8 million. This follows consecutive increases of 20.6% ($11.8 million) and 31.4% ($13.7 million) in fiscal years 2015/16 and 2014/15, respectively, over the prior fiscal years. The increases were instituted by SERS to fund its net pension liability, which was $19.3 billion at December 31, 2016, a $1.1 billion increase from the $18.2 billion net pension liability reported at

December 31, 2015. Approximately 40% of the State System's employees are enrolled in SERS.

- **Employer contributions to PSERS**, a defined benefits pension plan, increased 18.3% over fiscal year 2015/16, for a total increase of $1.1 million. This follows consecutive increases of 15.4% ($0.8 million) and 32.9% ($1.3 million) in fiscal years 2015/16 and 2014/15, respectively, over the prior fiscal years. The increases were instituted by PSERS to fund its net pension liability, which was $49.6 billion at June 30, 2016, up from the $43.3 billion net pension liability reported at June 30, 2015. Since approximately only 7% of the State System's employees are enrolled in PSERS, the impact of contribution rate increases from PSERS is far less than the impact from SERS. The Commonwealth makes annual pension contributions to PSERS on behalf of State System employees at the same annual rate.

- **Employer contributions to the ARP** (Alternative Retirement Plan), a defined contribution plan, increased 3.2% over fiscal year 2015/16, for a total increase of $1.4 million. This follows a decrease of 1.6% ($0.7 million) and an increase of 1.7% ($0.7 million) in fiscal years 2014/15 and 2013/14, respectively, over the prior fiscal years. The changes in annual contributions are attributed to fluctuating employee participation and salary increases. The employer contribution rate (9.29%) has been the same since the plan's inception. Since the ARP is a defined contribution plan, the State System has no liabilities related to future benefits. Approximately 49% of the State System's employees are enrolled in the ARP.

Following is a summary of pension benefits annual contributions, expenses, and liability for the years ending June 30, 2017, 2016, and 2015.

(in millions)

Pension Benefits

	June 30, 2017	Change from Prior Year	June 30, 2016	Change from Prior Year	June 30, 2015	Change from Prior Year
Employer contributions						
SERS	$83.8	21.4%	$69.0	20.6%	$57.2	31.4%
PSERS	$7.1	18.3%	$6.0	15.4%	$5.2	32.9%
ARP	$45.3	3.2%	$43.9	(1.6%)	$44.6	1.7%
Pension expense						
SERS	$130.6	25.6%	$104.0	24.6%	$83.5	92.0%
PSERS	$20.2	26.3%	$16.0	138.8%	$6.7	71.8%
ARP	$45.3	3.2%	$43.9	(1.6%)	$44.6	1.7%
Net pension liability						
SERS	$931.6	8.5%	$858.4	17.9%	$728.1	7.4%
PSERS	$90.8	13.2%	$80.2	13.4%	$70.7	(0.4%)
ARP	$0.0	-	$0.0	-	$0.0	-

- The cost for **all other employee benefits**, such as Social Security and workers' compensation, increased by a total of $1.2 million, or 1.2% more than fiscal year 2015/16, compared to a fiscal year 2015/16 decrease of $2.5 million, or 2.5%, over fiscal year 2014/15. The fiscal year 2016/17 increase can be attributed to the increase in salaries and wages, since these benefits are based on a percentage of salaries and wages.

Future Economic Factors

The **Commonwealth** ended fiscal year 2016/17 with General Fund collections that were $1.1 billion, or 3.4%, lower than estimated. The Commonwealth budget, which is highly dependent on a growing economy, faces the challenges of continually increasing pension obligations, wages and benefits, debt service, and medical and entitlement costs. These mandated cost drivers are expected to consume virtually all revenue growth if there is no change in current revenue sources.

Although Pennsylvania lawmakers approved a $32 billion spending plan in June 2017, they have not yet agreed on a tax and revenue package needed to fund it, and the fiscal year 2017/18 budget remains unbalanced. As a result, in August 2017, the Commonwealth Treasury Department released a **$750 million loan** from its Short-Term Investment Pool to the General Fund. A press release issued by Treasury stated that, "Without legislative action on a responsible revenue package, the total borrowing needs of the General Fund could approach $3 billion over the next eight months, beginning in early September [2017]. This amount is beyond the prudent lending capacity of Treasury's investment pool. Further, there is no historical precedent for Treasury lending to the General Fund without an approved revenue package in place." The press release went on to say that, "Without sufficient money in the General Fund, the Commonwealth will be forced to forgo certain expenditures beyond traditional government operations," including funds for the state-related universities, discretionary grants, and other deferrable expenses. In July 2017, Standard & Poor's placed the Commonwealth's credit rating on "negative watch," and warned that if "legislators enact a budget that relies on what we view as optimistic assumptions or one-time sources, we would likely lower the rating." A downgrade to the Commonwealth's credit rating would increase the cost of borrowing and limit future borrowing options.

State System Strategic Review

In July 2017, the National Center for Higher Education Management Systems (**NCHEMS**) delivered its final report on the strategic review of the State System, which was commissioned by then-Chancellor Frank T. Brogan and the Board. The report was the result of a widely inclusive process that included more than 120 meetings across the state, including sessions held on each of the State System campuses with students, faculty, staff, alumni, business and community leaders, and elected officials. In addition, more than 800 individuals offered comments and suggestions through the website established for the project. NCHEMS also analyzed student, program, and financial data, as well as regional and national trends in higher education and workforce demand.

NCHEMS presented the following recommendations for the future of the State System to the public and State Systems officials in the July 2017 Board meeting:

- The State System and the Office of the Chancellor should not be eliminated.
- No university should be closed.
- No universities should be merged.
- No university should be separated from the State System.
- There should be no attempt to undermine the collective bargaining process.
- The State System's mission to serve students and communities in every region with high-quality, affordable postsecondary opportunities for working-class families should be retained.
- Act 188 should be amended to replace the current Board of Governors with a Board of Regents made up of lay members, and the authority of the Board, the Chancellor, the institutional Presidents, and the Council of Trustees should be clarified.
- The Board and Office of the Chancellor should change its emphasis from compliance to institutional support and policy leadership.
- Universities with severe sustainability challenges should retain their unique character and core programs but be reconfigured, leveraging System-wide and regional resources.
- The State System should adopt a strategic financing model that fits the varied circumstances of the universities and incentivizes collaboration over competition.
- Future collective bargaining agreements should promote nimbleness and be financially feasible.
- The role of faculty in advising on matters of academic policy should be distinct from its role in collective bargaining.
- The legislature should consider permitting early retirement incentives to help align staffing levels with enrollment.
- A statewide entity should be established with responsibility and authority for all of Pennsylvania's postsecondary education institutions.

Cash Flow

The universities record their share of the State System pooled deposits and investments account at cost; that is, without regard to the fair value of the underlying investments. The associated markup or markdown for the fair value, as well as the annual unrealized gains or losses on investments, are recorded only at the consolidated level. In fiscal year 2016/17, the unrealized loss on the State System pooled deposits and investments account was $26.1 million, while the accumulated fair value markup at June 30, 2017, was $92.4 million. This compares to an unrealized gain on investments in fiscal year 2015/16 of $1.8 million and an accumulated fair value markup of $118.5 million at June 30, 2016. The fiscal year 2016/17 unrealized loss was a result of the rise in interest rates during the year, which caused the prices of fixed-income securities to decline from the prior fiscal year. It is important to note that the strategy of the investment portfolio is to buy quality investments and hold to maturity; therefore, unrealized gains and losses will not be realized.

The combination of factors such as years of stagnant appropriations, declining enrollment, low interest rates, increasing personnel costs, and high long-term debt continues to cause cash flow pressures for some State System universities, especially during the summer months between spring and fall tuition collections. Although cash and investments that are attributed to Restricted and Auxiliary activities must be kept separate from the cash and investments that result from E&G operations, some universities have temporarily borrowed from Auxiliary funds to meet payroll cash requirements, even though their Auxiliary operations also have experienced significant declines in cash balances. Cash flow weaknesses, which can seriously threaten financial viability, are affecting the smaller more than the larger State System universities, whose cash flows remain relatively strong.

- **Cheyney University's cash flow** has been further stressed by the federal Department of Education's (ED) unwillingness to transfer the cash for Cheyney's fiscal year 2016/17 student financial aid. Cheyney has been anticipating the receipt of approximately $8.9 million in student financial aid from the ED for fall 2016 and spring 2017, which has not yet been received as of the date of this document. To meet Cheyney's biweekly payroll cash needs, the Office of the Chancellor has been issuing interest-free short-term appropriation anticipation notes to Cheyney, which are paid back as the monthly appropriations are received, and also has issued a $1.5 million interest-free loan that will be paid back when the funds are received from ED.

  In addition, over the last four years, Cheyney has borrowed a total of $30.5 million from the State System pooled deposits and investments account. The university's E&G and Auxiliary cash both would be in deficits without these borrowed funds. As detailed later in this document, in August 2017, the Board of Governors approved an action to forgive the $30.5 million owed by Cheyney University to the other 13 universities, provided that Cheyney meets certain fiscal conditions over the next four years. Assuming the conditions are met, the cash will be transferred from the other 13 universities over the next four years, most likely in proportion similar to the appropriation that the universities receive. This will cause additional cash flow stress to the other universities, especially to those that have relatively low cash balances.

  To ensure the security of the cash inflows to Cheyney that have been restricted as to purpose by the donor or grantor, separate bank and investment accounts have been established for these funds, and access to them requires the approval of the Office of the Chancellor. The Office of the Chancellor is working closely with the university to sharply reduce expenditures in an effort to stabilize its cash flow and balance its budget.

- **Clarion University's cash** continues to decrease, although not quite as significantly as over the last four years. Clarion's combined E&G and Auxiliary cash and investments decreased by 16.1%, or $2.6 million, in fiscal year 2016/17 over fiscal year 2015/16. Since June 30, 2014, Clarion's combined E&G and Auxiliary cash and investments have decreased by 62.8%, or $22.5 million, from $35.9 million at June 30, 2014, to $13.4 million at June 30, 2017. The Office of the Chancellor continues to work with Clarion University to closely monitor its cash flows.

- After experiencing significant declines over the last two years, **Mansfield University's** combined E&G and Auxiliary cash and investments have **stabilized**. E&G balances increased by $0.5 million and Auxiliary balances increased by $1.4 million in fiscal year 2016/17 over fiscal year 2015/16, to a combined balance of $16.8 million. The increase can be attributed to the university's efforts to reduce staff and engage in other cost-cutting measures, as well as a per-credit tuition program begun in fiscal year 2016/17. The Office of the Chancellor continues to work with Mansfield University to closely monitor its cash flows.

- The remaining universities have **relatively strong cash balances**, although some have experienced fiscal year decreases in E&G and/or Auxiliary cash. Several universities have cash and investment balances close to or exceeding $100 million at June 30, 2017, with West Chester having an unrestricted cash and investment balance of more than $212 million. Overall, university E&G cash and investments increased by $31.4 million in fiscal year 2016/17, for a balance of $690.4 million at June 30, 2017. Auxiliary cash and investments decreased by $10.4 million in fiscal year 2016/17, for a balance of $326.5 million at June 30, 2017. This compares to an increase of $8.2 million in E&G cash and investments and an increase of $25.6 million in Auxiliary cash and investments in fiscal year 2015/16 over fiscal year 2014/15. The Office of the Chancellor is monitoring universities whose cash balance, revenue, expenditure, and enrollment trends may be an indication of future cash flow weaknesses.

Privatized Housing Acquisitions

To decrease operational expenses and lower the cost of debt service, several universities have purchased student residence halls that were constructed by their affiliated organizations by issuing tax-exempt bonds through State System bond financing and paying off affiliates' debt. Since the transactions are between related parties, GAAP requires that the universities record the assets (the buildings) at the depreciated value that was recorded on the affiliates' books at the time of acquisition by the universities. Consequently, the debt being assumed by the universities significantly exceeds the value of the asset recorded, because not only did the funds that were originally borrowed by the affiliates include noncapitalized items such as furnishings and debt service fees, but also because the annual depreciation on the housing recorded by the affiliates exceeded the annual payments that were made to reduce debt principal.

In fiscal year 2016/17, **Edinboro University** acquired all eight of the student residence halls on campus property that had been constructed by their affiliate, Edinboro University Foundation. The book value of the housing at the time of acquisition was $82.7 million, but the debt assumed was $118.1 million, resulting in a **loss on acquisition of $35.4 million**. Despite the negative effect on its balance sheet, over the 27-year debt term the university expects to reduce debt service payments by about $52 million and avoid an estimated $20 million in operating costs such as ground lease payments, management fees, insurance, and payments in lieu of taxes.

In fiscal year 2016/17, **Lock Haven University** acquired one large residence hall on campus property that had been constructed by their affiliate, Lock Haven University Foundation. The book value of the housing at the time of acquisition was $32.0 million, but the debt assumed was $38.1 million, resulting in a **loss on acquisition of $6.1 million**. Despite the negative effect on its balance sheet, over the 25-year debt term the university expects to reduce debt service payments by about $9.3 million and avoid an estimated $3.5 million in operating costs such as ground lease payments, management fees, insurance, and payments in lieu of taxes.

In fiscal year 2016/17, **Mansfield University** acquired all four of the student residence halls on campus property that had been constructed by their affiliate, Mansfield Auxiliary Corporation. The book value of the housing at the time of acquisition was $77.0 million, but the debt assumed was $86.8 million, resulting in a **loss on acquisition of $9.8 million**. Despite the negative effect on its balance sheet, over the 38-year debt term the university expects to reduce debt service payments by about $16 million and avoid an estimated $18 million in operating costs such as ground lease payments, management fees, insurance, and payments in lieu of taxes.

Revenue

In fiscal year 2017/18, the State System will receive $453.1 million in **General Fund appropriations**, an increase of $8.9 million, or 2.0%, over fiscal year 2016/17. This compares to a 2.5% increase received in 2016/17 over the prior fiscal year.

The governor has proposed that the Commonwealth continue its commitment to fund the State System's deferred maintenance projects with a $17.1 million Realty Transfer Tax allocation from the **Key '93** funds. This would be an increase of 6.2% from the $16.1 million received in fiscal year 2016/17; however, the funds will not be received unless and until they are approved when the Commonwealth's fiscal year 2017/18 budget is approved.

In July the Board approved a 3.5% **tuition increase** for the 2017/18 academic year. The $127-per-semester increase sets the base tuition rate for most full-time Pennsylvania residents—who comprise about 90% of all State System university students—at $3,746 per term, or $7,492 for the full year. Even with the increase, the State System universities will remain the lowest-cost option among all four-year colleges and universities in the state. The tuition increase will help offset about half of a projected $71.7 million budget deficit across the System. The universities still will be required to trim a combined nearly $37.8 million in expenditures to balance their individual budgets this year. The universities already have reduced expenditures by a combined nearly $325 million over the last dozen years in order to balance their budgets and to help hold down student costs. **Nonresident, undergraduate tuition** also will increase by 3.5% beginning in fall 2017, ranging from $11,238 to $18,730 for the 2017/18 academic year. The resident, graduate tuition rate will be $500 per credit, an increase of $17. The nonresident, graduate tuition rate will increase by $25 per credit, to $750. The technology tuition fee will be $464 for full-time resident students, and $706 for full-time nonresidents.

The tuition rate increase, coupled with the increase in state appropriations, will provide almost all of the additional funds the universities need to balance their budgets. Significant cost increases are expected this year in several areas, including healthcare and pension contributions, over which the universities essentially have no control, as well as increases in salaries as a result of new collective bargaining agreements. As the number of high school graduates in the state continues to drop, most of the universities are expecting their enrollments to decline slightly, resulting in reduced revenue.

Enrollment

With an undergraduate population comprising approximately 90% Pennsylvania residents—and the majority of those being traditional-age students enrolling right out of high school—the State System's enrollment historically has been closely tied to the state's high school demographic trends. Following is the projected number of Pennsylvania **high school graduates** based on estimates from the Pennsylvania Department of Education.

Projected Pennsylvania High School Graduates

Fiscal Year	Number of Graduates	% Increase (Decrease)
2017/18	125,234	0.2%
2018/19	123,814	(1.1%)
2019/20	121,027	(2.3%)
2020/21	121,981	0.8%
2021/22	122,721	0.6%
2022/23	120,940	(1.5%)
2023/24	122,453	1.3%
2024/25	124,240	1.5%
2025/26	123,983	(0.2%)

Pension Costs

In June 2017, Governor Tom Wolf signed into law legislation that will modify the pension benefits for new hires. Instead of receiving one of the defined benefit plans that are offered to current employees, most Commonwealth and public school employees hired in 2019 and beyond will be required to choose one of three pension options:

- A hybrid plan that requires workers to contribute 8.25% of their salary, which would be split between a defined contribution and defined benefit plan. Upon retirement, the employee will receive both a guaranteed pension, with an annual benefit accrual rate of 1.25% of their final average salary, and the accumulated balance of the defined contribution account.

- A hybrid plan that requires workers to contribute 7.5% of their salary, which would be split between a defined contribution and defined benefit plan. Upon retirement, the employee will receive both a guaranteed pension, with an annual benefit accrual rate of 1% of their final average salary, and the accumulated balance of the defined contribution account.

- A defined contribution plan, which would require an employee contribution of 7.5%. The employer would contribute 3.50% of the salary of Commonwealth employees and 2% of the salary of public school employees. Upon retirement, the employee will receive the accumulated balance of the defined contribution account, with no guaranteed amount.

In the first two options, vesting for employer contributions is 10 years for the defined benefit portion and three years for the defined contribution portion. In all three options, vesting for employee contributions is immediate.

In addition to these new SERS/PSERS plans, the State System will be permitted to continue offering the defined contribution Alternative Retirement Plan, with a 5% required employee contribution, a 9.29% employer contribution, and immediate vesting of both employer and employee contributions.

Lawmakers acknowledge that the bill is not intended to significantly pay down the pension systems' unfunded liabilities, but to gradually shift a portion of investment and other pension risks to future employees.

SERS

- In fiscal year 2016/17, SERS continued its increases in employer pension contribution rates. The most predominant employer-paid SERS rates for State System employees rose more than 20% in 2016/17, after increases of nearly 25% in 2015/16, 32% in 2014/15, and more than 44% in 2013/14. The rates have increased by an additional 15% in 2017/18, bringing the **contribution rate to 34.44%** of employees' eligible salaries. According to SERS, the rate is expected to grow to 35.13% of employees' eligible salaries in fiscal year 2018/19.

- As of December 31, 2016, the SERS **net pension liability** was $19.3 billion, compared to $18.2 billion and $14.9 billion at December 31, 2015 and 2014, respectively.

- SERS **funded ratio**, which is the actuarial value of assets compared to the actuarial accrued liability, was approximately 58.1% at December 31, 2016, compared to 58.0% and 59.4% at December 31, 2015 and 2014, respectively. For comparison, the funded ratio at December 31, 2003, was 104.9%, while SERS projects the funded ratio at December 31, 2027, to be only 67.8%.

- In 2016, nearly 6,700 **new retirees** were added to the annuity payroll, with an average annual benefit of approximately $28,736; however, just 4,000 retirees, who had average annual benefits of about $15,000, were removed from the rolls. The rolls have increased by 20,208 members, or 18.9%, since 2007.

- At December 31, 2016, State System employees represented 4.76% of active SERS members.

PSERS

- PSERS also continued its increases in employer pension contribution rates. The employer-paid PSERS rates for State System employees rose 15.6% in 2016/17, after increases of nearly 21% in 2015/16, more than 26% in 2014/15, and more than 37% in 2013/14. The rates have increased by an additional 8.7% in 2017/18, bringing the **contribution rate to 16.285%** of employees' eligible salaries. This rate comprises a 15.87% rate for pension costs and 0.415% for premium assistance payments, a healthcare benefit given to retirees who meet certain eligibility requirements. This rate is estimated to increase an additional 3.9% in fiscal year 2018/19.

- As of June 30, 2016, the PSERS **net pension liability** was $49.6 billion, compared to $43.3 billion at June 30, 2015, and $39.6 billion at June 30, 2014.

- PSERS plan **fiduciary net position** as a percentage of the total pension liability was approximately 50.1% at June 30, 2016, compared to 54.4% at June 30, 2015, and 57.2% at June 30, 2014.

- At June 30, 2016, State System employees represented less than 0.2% of reported member salaries covered under PSERS.

ARP

The contribution rate for the ARP, a defined contribution pension plan, remains unchanged at 9.29% of employees' eligible salaries. There is no employer pension liability associated with the ARP.

Compensation Costs

In December 2016, following a three-day strike by **APSCUF**, which represents all faculty and coaches, the Board approved a new collective bargaining agreement with the union. The new agreement with the faculty runs through June 30, 2018, while the agreement with the coaches will expire a year later. Under the terms of the agreement, dependent on their pay level, faculty received a salary increase of either 2.5% or 5% retroactive to January 2016 or a one-time cash payment equivalent to 2.5% of their annual salary. In addition, all faculty received an additional 2.75% increase retroactive to August 2016, followed by another 2% increase at the start of the fall 2017 semester. Coaches received a 3% salary increase retroactive to the start of the fall 2016 semester. In addition, full-time coaches received lump sum payments of $1,500, while part-time coaches received $750. Coaches also will receive pay increases of 2.75% in January 2018 and 2.5% in January 2019 and are eligible for additional merit increases of up to 2.5% in both July 2017 and July 2018. The agreements for both faculty and coaches also included healthcare plan revisions designed to produce cost savings for the State System, similar to those covering other State System employees.

The Board also approved a new agreement with the Office of Professional Employees International Union Healthcare Pennsylvania (**OPEIU**), which represents university health center nurses. Under the agreement, university nurses received a 3.5% increase retroactive to October 2016, their first general pay increase since 2010. They received an additional increase of 2% in July 2017 and will receive an additional 2.5% in July 2018, along with service increments averaging approximately 2.25% in January 2018 and January 2019. The new contract also increases the reimbursement rates that nurses receive for costs associated with professional development and continuing education that is required to maintain their certification. The agreement expires June 30, 2019.

In December 2016 the Board also approved a "wage reopener" for campus police and security officers, who are represented by the Security Police and Fire Professionals of America (**SPFPA**), which provided the employees with a 3.5% pay increase retroactive to October 1, 2016. The contract with the police and security officers expired in August 2017, and the employees are working under the terms of the expired agreement while negotiations continue.

Lastly, in December 2016 the Board approved a two-year merit pool for employees not represented by a union. Nonrepresented employees were eligible for a 2.75% merit-based increase in January 2017 and will be eligible for a 4.25% merit-based increase in January 2018. The amount of increase each employee receives is determined based on his or her prior year's performance evaluation.

Performance Funding

Fiscal year 2017/18 is the last year of the current model of the State System's performance funding program, which was begun in 2011. While the model is under review, a transitional model will be proposed to the Board. In light of anticipated changes, in fiscal year 2017/18 the Board allocated **$39.06 million** in performance funding, the same amount that was allocated in fiscal year 2016/17.

Cheyney University of Pennsylvania

As further detailed in the disclosures attached to these financial statements under note 12, *Contingencies and Commitments*, Cheyney University's accreditation status was placed on probation by the Middle States Commission on Higher Education (Middle States) in November 2015. The university was given two years to address the deficiencies noted by Middle States. As required, the university submitted monitoring reports that documented its plan for remediation.

In June 2017, Middle States required Cheyney to show cause, by September 1, 2017, as to why its accreditation should not be withdrawn. Cheyney has submitted the required detailed operating plan to Middle States, which included a balanced budget that matched revenue with expenses. A decision by Middle States as to whether or not to renew Cheyney University's accreditation is expected by November 17, 2017.

To help the university secure continued accreditation, in August 2017, the Board approved a motion that, if over the next four years the university demonstrates fiscal stability, the more than $30 million in loans made to Cheyney from the 13 other universities and the Office of the Chancellor will be forgiven. One-third will be forgiven when Cheyney cuts $7.5 million from its fiscal year 2017/18 budget and maintains a balanced budget for fiscal year 2018/19. The next two-thirds will be forgiven when Cheyney demonstrates a balanced budget in each of the following two fiscal years.

To satisfy these conditions, the university has made cuts to administration and staff, reorganized business and campus operations, and renegotiated contracts with vendors. To additionally help balance the budget and better align academic programs with the future of the university, Cheyney will consider placing some academic programs into moratorium, meaning that they will not accept any new students into the programs. To further this plan, the Board approved limited policy exemptions for Cheyney so that the programs that are placed into moratorium can be immediately discontinued, rather than requiring the programs to remain open until all students in the program have graduated. Instead, affected students will be provided the opportunity either to complete another program at Cheyney or transfer to a similar program at any of the other 13 State System universities to complete their degree. Affected faculty members would continue to teach through the end of the spring 2018 semester and would have preferential hiring rights to vacancies posted at Cheyney and the other 13 universities.

As also detailed in note 12, in August 2015, Cheyney University voluntarily self-reported to the U.S. Department of Education (ED) that $29.6 million of federal student financial aid was improperly administered and delivered in fiscal years 2011/12, 2012/13, and 2013/14, covering almost 4,400 student records. The State System has been engaged with the ED since reporting these findings. On April 3, 2017, the university received a response from the ED requiring the university to take specified corrective actions, including submitting file reviews, reconciliations, and updated policies and procedures, and further requiring that Cheyney engage an independent Certified Public Accountant to attest to the file reviews and reconciliations. The university was given 90 days to respond to the request but asked for and was granted an extension to respond until December 31, 2017.

One consequence of the university's past deficiencies in administering federal student aid is that in September 2015 the ED placed the university on Heightened Cash Monitoring 2 (HCM2) status, meaning that the university does not receive federal student financial aid funds in advance, but must use its own cash to grant federal financial aid to its students and then request reimbursement from the ED. After demonstrating compliance with HCM2 requirements, the university received its spring 2016 federal student aid funds in July, but has not yet received its fall 2016 and spring 2017 federal student aid funds, which total $8.9 million. The delay in receipt of funds is causing further pressure on the university's severe cash shortage.

In January 2016, the U.S. Department of Justice (DOJ) notified the State System that it was investigating the application and use of federal student financial aid by Cheyney University and the oversight of the university by the State System. The DOJ requested that the university and State System preserve and produce certain documents. The State System has fully complied with the DOJ's request. No action has been taken at this point by the DOJ, and the possible resulting outcomes from the investigation are uncertain until communication is received from the DOJ.

Cheyney University ended fiscal year 2016/17 with a $5.2 million loss in E&G activity and a $2.2 million loss in Auxiliary activity, for a total unrestricted loss of $7.4 million, bringing the university's unrestricted net position deficit to $25.0 million at June 30, 2017 (excluding unfunded pension, postretirement, and compensated absences liabilities). This follows a $5.7 million loss in unrestricted funds in fiscal year 2015/16, a $5.5 million loss in unrestricted funds in fiscal year 2014/15, and a $4.2 million loss in fiscal year 2013/14.

Although net tuition and fees increased slightly, from $2.1 million in fiscal year 2015/16 to $2.3 million in fiscal year 2016/17, and E&G salaries and benefits decreased by $2.3 million, other E&G operating expenses increased by $4.5 million, primarily as a result of efforts to rectify health and safety concerns on the campus, improve the level of facilities maintenance, and enhance campus technology services.

Cheyney's fall 2017 enrollment is expected to be slightly lower than its 2016 enrollment of 746 students, compared to a fall 2015 enrollment of 711 students and a fall 2014 enrollment of 1,022 students.

The State System, through the Office of the Chancellor, continues to provide oversight to Cheyney's leadership in an attempt to stabilize its financial condition and implement a comprehensive plan that includes timely and accurate financial aid processing, increasing student enrollment, restructuring course offerings, revitalizing its academic program array, and right-sizing personnel and facilities.

Moody's Rating and Outlook

In August 2017, Moody's Investors Service, Inc. (Moody's), reaffirmed the State System's **bond rating of Aa3**, but revised the outlook from *stable* to *negative*. In its August 17, 2017, *Credit Opinion*, Moody's stated:

> *The negative outlook reflects prospects for increasingly pressured operations and cash flow due to growing benefit costs from state-sponsored plans and higher compensation costs from its collective bargaining agreements governing most of its employees. Further, the system faces the start of new negotiations with faculty as the union contract expires in less than one year. These challenges all come in the face of limited prospects for revenue growth as [the State System] projects fall 2017 enrollment to be lower than budget and limited opportunity growth in state funding. Additionally, [the State System] confronts likely controversial decisions around the system's organizational cost structure that may prove difficult to execute following the conclusion of the system review requested by the board.*

Moody's details as State System **challenges** the high number of faculty and staff that are subject to collective bargaining agreements, which pressure operations and limit cost management efforts; significant pension and OPEB liabilities along with increasing required contributions; enrollment and financial challenges at some campuses, which may require more aggressive restructuring efforts; high leverage, with $2.3 billion of total debt, including affiliates' student housing debt; and the expected challenges in executing the recommendations from NCHEMS.

Moody's details as State System **strengths** its substantial balance sheet reserves, with unrestricted liquidity of $1.3 billion; its significant scale as one of the nation's largest higher education systems; effective State System governance and management, including strong fiscal oversight and debt management; positive, although thinning, cash flow; and modest near-term debt plans with rapidly amortizing debt.

Moody's predicts that a ratings downgrade could result from a decline in unrestricted liquidity, failure to lessen declining enrollment, and a weakening of the Commonwealth's credit profile or a decline in Commonwealth support. Conversely, a ratings upgrade could result from a sustained increase in operating performance and cash flow generation, significantly strengthened and growing enrollment across the State System, and greater flexibility in adjusting to business conditions.

*For **further information** about these financial statements, contact Pennsylvania's State System of Higher Education, Accounting Office, 2986 North Second Street, Harrisburg, PA 17110.*

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Pennsylvania's State System of Higher Education

Balance Sheet

(dollars in thousands)

Assets and Deferred Outflows of Resources

	June 30, 2017	June 30, 2016
Current Assets		
Cash and cash equivalents	$ 17,829	$ 20,519
Short-term investments	680,955	649,417
Accounts receivable, students, net of allowance for doubtful accounts of $34,067 in 2017 and $30,049 in 2016	44,446	42,765
Accounts receivable, other	30,178	30,827
Governmental grants and contracts receivable	23,194	16,986
Inventories	2,932	2,958
Prepaid expenses	12,732	14,031
Current portion of loans receivable, net	9,032	8,638
Due from component units	16,676	23,015
Other current assets	2,642	2,646
Total Current Assets	840,616	811,802
Noncurrent Assets		
Restricted cash and cash equivalents	25	25
Endowment investments	32,126	29,596
Other long-term investments	634,716	676,630
Loans receivable, net	31,810	32,474
Due from component units	8,767	9,160
Capital Assets:		
Land	32,360	32,360
Buildings, including improvements	2,432,715	2,213,463
Improvements other than buildings	298,197	285,136
Equipment and furnishings	487,973	470,347
Library books	80,734	81,314
Construction in progress	183,303	80,012
	3,515,282	3,162,632
Less accumulated depreciation	(1,615,900)	(1,509,343)
Capital assets, net	1,899,382	1,653,289
Other noncurrent assets	1,371	1,873
Total Noncurrent Assets	2,608,197	2,403,047
Total Assets	3,448,813	3,214,849
Deferred Outflows of Resources	241,108	191,221
Total Assets and Deferred Outflows of Resources	$ 3,689,921	$ 3,406,070

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Balance Sheet

(dollars in thousands)

Liabilities, Deferred Inflows of Resources, and Net Position

	June 30, 2017	June 30, 2016
Current Liabilities		
Accounts payable and accrued expenses	$ 176,567	$ 162,520
Unearned revenue	51,139	50,448
Deposits	6,571	40,691
Current portion of workers' compensation liability	4,305	4,419
Current portion of compensated absences liability	10,620	9,990
Current portion of capitalized lease obligations	3,778	3,476
Current portion of bonds payable	70,605	62,885
Due to component units	10,490	10,693
Other current liabilities	117,144	77,241
Total Current Liabilities	451,219	422,363
Noncurrent Liabilities		
Unearned revenue	3,175	4,615
Workers' compensation liability, net of current portion	16,062	17,672
Compensated absences liability, net of current portion	108,906	105,433
Capitalized lease obligations, net of current portion	42,528	45,170
Bonds payable, net of current portion	1,002,310	779,705
Postretirement benefits liability	1,145,088	1,106,643
Net pension liability	1,022,458	938,637
Other noncurrent liabilities	99,826	77,652
Total Noncurrent Liabilities	3,440,353	3,075,527
Total Liabilities	3,891,572	3,497,890
Deferred Inflows of Resources	47,274	30,162
Net Position		
Net investment in capital assets	722,365	709,271
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	37,361	32,505
Student loans	5,345	4,538
Other	3,272	3,961
Expendable:		
Scholarships and fellowships	26,153	21,074
Research	187	248
Capital projects	32,847	37,406
Other	16,105	14,723
Unrestricted	(1,092,560)	(945,708)
Total Net Position	(248,925)	(121,982)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 3,689,921	$ 3,406,070

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2017 and 2016
(dollars in thousands)

	2017		2016	
Operating Revenues				
Tuition and fees	$ 1,086,337		$ 1,065,416	
Less discounts and allowances	(230,636)		(226,381)	
Net tuition and fees		$ 855,701		$ 839,035
Governmental grants and contracts:				
Federal		38,128		37,519
State		103,938		104,650
Local		4,910		4,595
Nongovernmental grants and contracts		11,132		8,758
Sales and services		39,968		37,660
Auxiliary enterprises, net of discounts of $2,450 in 2017 and $1,782 in 2016		327,781		323,358
Other revenues, net		19,849		8,446
Total Operating Revenues		1,401,407		1,364,021
Operating Expenses				
Instruction		779,814		749,290
Research		6,353		6,304
Public service		42,543		39,381
Academic support		185,411		184,037
Student services		189,610		184,675
Institutional support		253,007		257,261
Operations and maintenance of plant		159,295		159,904
Depreciation		132,267		121,683
Student aid		76,416		79,136
Auxiliary enterprises		258,970		253,786
Total Operating Expenses		2,083,686		2,035,457
Operating Loss		(682,279)		(671,436)
Nonoperating Revenues (Expenses)				
State appropriations, general and restricted		444,224		433,389
Commonwealth on-behalf pension contributions		10,022		7,952
Pell grants		134,162		138,575
Investment income, net of related investment expense of $333 in 2017 and $354 in 2016		35,035		23,979
Unrealized gain (loss) on investments		(19,704)		2,551
Gifts for other than capital purposes		20,877		28,544
Interest expense on capital asset-related debt		(38,228)		(33,920)
Loss on disposal/acquisition of assets		(54,820)		(20,490)
Other nonoperating revenue		2,103		4,018
Net Nonoperating Revenues		533,671		584,598
Loss before other revenues		(148,608)		(86,838)
State appropriations, capital		16,081		15,714
Capital gifts and grants		5,563		7,620
Additions to permanent endowments		21		25
Decrease in Net Position		(126,943)		(63,479)
Net position—beginning of year		(121,982)		(58,503)
Net position—end of year		$ (248,925)		$ (121,982)

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Statement of Cash Flows
For the Years Ended June 30, 2017 and 2016
(dollars in thousands)

	2017	2016
Cash Flows from Operating Activities		
Tuition and fees	$ 852,254	$ 840,064
Grants and contracts	152,507	160,543
Payments to suppliers for goods and services	(471,080)	(470,716)
Payments to employees	(1,331,148)	(1,304,770)
Loans issued to students	(5,462)	(5,374)
Loans collected from students	5,726	6,442
Student aid	(76,910)	(79,503)
Auxiliary enterprise charges	325,798	324,031
Sales and services	41,059	37,044
Other receipts	66,846	70,594
Net cash used in operating activities	(440,410)	(421,645)
Cash Flows from Noncapital Financing Activities		
State appropriations	444,224	433,389
Gifts and nonoperating grants for other than capital purposes	154,847	162,524
PLUS, Stafford, and other loans receipts (non-Perkins)	919,357	904,666
PLUS, Stafford, and other loans disbursements (non-Perkins)	(919,385)	(904,648)
Agency transactions, net	(1,570)	(3,598)
Other	2,104	4,018
Net cash provided by noncapital financing activities	599,577	596,351
Cash Flows from Capital Financing Activities		
Proceeds from capital debt and leases	86,534	86,798
Capital appropriations	15,511	15,714
Capital grants and gifts received	4,751	4,184
Proceeds from sales of capital assets	90	101
Purchases of capital assets	(173,783)	(115,657)
Principal paid on capital debt and leases	(71,488)	(110,963)
Interest paid on capital debt and leases	(46,567)	(43,450)
Net cash used in capital financing activities	(184,952)	(163,273)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	34,702,266	20,624,557
Interest on investments	34,654	23,672
Purchase of investments	(34,713,825)	(20,659,563)
Net cash provided by (used in) investing activities	23,095	(11,334)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,690)	99
Cash and cash equivalents—beginning of year	20,544	20,445
Cash and cash equivalents—end of year	$ 17,854	$ 20,544

See accompanying notes to financial statements.

Pennsylvania’s State System of Higher Education

Statement of Cash Flows
For the Years Ended June 30, 2017 and 2016
(dollars in thousands)

	2017	2016
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (682,279)	$ (671,436)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	132,267	121,683
Expenses paid by Commonwealth or donor	6,532	7,062
Effect of changes in operating assets and liabilities:		
Receivables, net	(6,547)	7,614
Inventories	26	611
Other assets	8,918	(4,180)
Accounts payable	983	(5,119)
Unearned revenue	(601)	606
Student deposits	504	(1,148)
Compensated absences	4,103	783
Loans to students and employees	264	1,067
Postretirement benefits liability (OPEB)	38,445	49,403
Defined benefit pensions	83,821	139,893
Other liabilities	7,084	34,377
Deferred outflows of resources related to pensions	(51,180)	(117,850)
Deferred inflows of resources related to pensions	17,250	14,989
Net cash used in operating activities	$ (440,410)	$ (421,645)
Noncash Activities		
Capital assets included in payables	$ 13,761	$ 14,602
Capital assets acquired by new capital leases	1,348	230
Capital assets acquired by gift or appropriation	1,309	4,391
Student housing capital assets acquired	191,829	55,901
Like-kind exchanges	22	4
Debt acquired for student housing acquisition	243,090	71,299

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Statement of Financial Position

(dollars in thousands)

	June 30, 2017	June 30, 2016
Assets		
Cash and cash equivalents	$ 155,724	$ 147,696
Accounts receivable	7,544	6,967
Contributions/pledges receivable	16,978	18,540
Due from universities	10,756	12,536
Prepaid expenses	2,641	2,377
Inventories	6,098	7,340
Short-term investments	60,685	71,077
Investments	440,646	398,311
Capital assets:		
Land	33,072	32,471
Buildings	1,167,813	1,308,682
Building improvements	19,140	18,632
Improvements other than buildings	7,344	9,023
Equipment and furnishings	72,170	89,355
Construction in progress	40,906	50,587
	1,340,445	1,508,750
Less accumulated depreciation	(270,679)	(276,262)
Capital assets, net	1,069,766	1,232,488
Other assets	121,182	114,422
Total Assets	$ 1,892,020	$ 2,011,754
Liabilities		
Accounts payable and accrued expenses	$ 29,443	$ 32,899
Deferred revenue	10,030	10,682
Interest payable	8,779	11,091
Annuity liabilities	7,140	7,012
Due to universities	24,973	31,899
Deposits payable	25,806	22,409
Interest rate swap agreements	58,565	84,662
Capitalized leases	28,662	28,428
Bonds payable	913,142	1,131,414
Notes payable	319,078	307,174
Other liabilities	16,392	10,820
Total Liabilities	1,442,010	1,678,490
Net Assets		
Unrestricted	58,516	(13,833)
Temporarily restricted	114,750	97,878
Permanently restricted	276,744	249,219
Total Net Assets	450,010	333,264
Total Liabilities and Net Assets	$ 1,892,020	$ 2,011,754

See accompanying notes to financial statements.

Pennsylvania's State System of Higher Education

Component Units Statement of Activities
For the Years Ended June 30, 2017 and 2016
(dollars in thousands)

	2017	2016
Revenues and Gains		
Contributions	$ 43,946	$ 40,443
Sales and services	45,122	47,255
Student fees	33,188	33,853
Grants and contracts	10,843	11,162
Rental income	149,294	171,073
Investment income, gains, and losses	69,155	7,860
Other revenues and gains	68,937	36,912
Total Revenues and Gains	420,485	348,558
Expenses and Losses		
Program services:		
Scholarships and grants	17,211	16,460
Student activities and programs	27,882	31,020
University stores	26,983	29,141
Housing	142,417	157,866
Other university support	15,486	21,533
Other programs	24,492	19,986
Management and general	32,577	34,626
Fundraising	10,701	10,815
Other expenses and losses	5,990	41,449
Total Expenses and Losses	303,739	362,896
Change in Net Assets	116,746	(14,338)
Net assets—beginning of year	333,264	347,602
Net assets—end of year	$ 450,010	$ 333,264

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
Years Ended June 30, 2017 and 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Pennsylvania's State System of Higher Education (State System) is a body corporate and politic, created by the State System of Higher Education Act of November 12, 1982, P.L. 660, No. 188, as amended (Act 188). The State System is a component unit of the Commonwealth of Pennsylvania (Commonwealth) and is governed by a Board of Governors (Board), as provided for in Act 188. The State System comprises the 14 universities and the Office of the Chancellor.

Reporting Entity

The State System functions as a Business Type Activity, as defined by the Governmental Accounting Standards Board (GASB).

Certain affiliated organizations are included in the State System's financial statements as discretely presented component units. Some of the organizations, such as university student associations, are included because the Board has oversight responsibility for the organizations. The criteria used in determining the organizations for which the State System has oversight responsibility include financial interdependency, the ability to select members of the governing body, the ability to designate management, the ability to influence operations significantly, and accountability for fiscal matters. Other affiliated organizations for which the Board does not have oversight responsibility, such as university foundations and alumni associations, are included when the economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the State System, the activity of the organization is significant to the State System universities, and the State System historically has received a majority of these economic resources. Neither the State System nor its universities control the timing or amount of receipts from these organizations.

The State System does not consider any of its component units to be major, and has aggregated all component unit information into a separate set of financial statements. Information on individual component units can be obtained by contacting the respective universities.

Transactions between the universities and the Office of the Chancellor have been eliminated in the accompanying financial statements.

Measurement Focus, Basis of Accounting, and Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by GASB. The economic resources measurement focus reports all inflows, outflows, and balances that affect an entity's net assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The accompanying financial statements of the component units, which are all private nonprofit organizations, are reported in accordance with Financial Accounting Standards Board (FASB) requirements, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications for these differences have been made to the component units' financial information presented herein.

Operating Revenues and Expenses
The State System records tuition; all academic, instructional, and other student fees; student financial aid; auxiliary activity; corporate partnerships; and revenue from cogeneration sales as operating revenue. In addition, governmental and private grants and contracts in which the grantor receives equal value for the funds given to the university are recorded as operating revenue. All expenses, with the exception of interest expense, loss on investments, loss on the acquisition and disposal of assets, and extraordinary expenses, are recorded as operating expenses. Appropriations, gifts, investment income, capital grants, gains on investments, gains on the disposal of assets, parking and library fines, and governmental and private research grants and contracts in which the grantor does not receive equal value for the funds given to the university are reported as nonoperating revenue.

Deferred Outflows and Deferred Inflows of Resources
The balance sheet reports separate sections for *Deferred Outflows of Resources* and *Deferred Inflows of Resources*.

Deferred Outflows of Resources, reported after *Total Assets,* is defined by GASB as a consumption of net position that applies to future periods. The expense is recognized in the applicable future period(s). *Deferred Inflows of Resources,* reported after *Total Liabilities,* is defined by GASB as an acquisition of net position that applies to future periods. The revenue is recognized in the applicable future period(s).

Transactions are classified as deferred outflows of resources or deferred inflows of resources only when specifically prescribed by GASB standards.

The State System is required to report the following as Deferred Outflows of Resources or Deferred Inflows of Resources.

- Deferred gain or loss on bond refundings, which results when the carrying value of a refunded bond is greater or less than its reacquisition price. The difference is deferred and amortized over the remaining life of the old bond or the life of the new bond, whichever is shorter.
- For defined benefit pension plans: the difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the State System's proportion of expenses and liabilities to the pension as a whole, differences between the State System's pension contributions and its proportionate share of contributions, and State System pension contributions subsequent to the pension valuation measurement date.

Net Position
Net position is the residual of Assets, plus Deferred Outflows of Resources, less Liabilities, less Deferred Inflows of Resources. The State System maintains the following classifications of net position.

Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, repair, or improvement of those assets.

Restricted—nonexpendable: The portion of net position subject to externally imposed conditions requiring that it be maintained by the State System in perpetuity.

Restricted—expendable: The portion of net position use of which is subject to externally imposed conditions that can be fulfilled by the actions of the State System or by the passage of time.

Unrestricted: All other categories of net position. Unrestricted net position may be designated for specific purposes by the Board.

When both restricted and unrestricted funds are available for expenditure, the decision as to which funds are used first is left to the discretion of the universities.

Cash Equivalents and Investments
The State System considers all demand and time deposits and money market funds to be cash equivalents. Investments purchased are stated at fair value. Investments received as gifts are recorded at their fair value or appraised value as of the date of the gift. The State System classifies investments as short-term when they are readily

marketable and intended to be converted to cash within one year.

Accounts and Loans Receivable
Accounts and loans receivable consist of tuition and fees charged to current and former students and amounts due from federal and state governments in connection with reimbursements of allowable expenditures made pursuant to grants, contracts, and other miscellaneous sources.

Accounts and loans receivable are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based upon the universities' historical losses and periodic review of individual accounts.

Inventories
Inventories are stated at the lower of cost or market, with cost being determined principally on the weighted average method.

Capital Assets
Land and buildings at the 14 university campuses acquired or constructed prior to its creation on July 1, 1983, are owned by the Commonwealth and made available to the universities of the State System. Since the State System neither owns such assets nor is responsible to service associated bond indebtedness, no value is ascribed thereto in the accompanying financial statements. Likewise, no value is ascribed to the portion of any land or buildings acquired or constructed using capital funds appropriated by the Commonwealth after June 30, 1983, and made available to the universities.

All assets with a purchase cost, or fair value if acquired by gift, in excess of $5,000, with an estimated useful life of two years or greater, are capitalized. Buildings, portions of buildings, and capital improvements acquired or constructed by the universities after June 30, 1983, through the expenditure of university funds or the incurring of debt are stated at cost less accumulated depreciation.

Equipment and furnishings are stated at cost less accumulated depreciation. Library books are capitalized on a composite basis in the year of purchase. Assets under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The State System provides for depreciation on the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over useful lives ranging from 10 to 40 years. Equipment and furnishings are depreciated over useful lives ranging from 3 to 10 years. Library books are depreciated over 10 years. Amortization of assets under capital leases is included in depreciation expense. Normal repair and maintenance expenditures are not capitalized because they neither add to the value of the property nor materially prolong its useful life.

The State System does not capitalize collections of art, rare books, historical items, etc., as they are held for public exhibition, education, or research rather than financial gain.

Impairment of Capital Assets
Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any write-downs due to impairment are charged to operations at the time impairment is identified. No write-down of capital assets was required for the years ended June 30, 2017 and 2016.

Unearned Revenue
Unearned revenue includes amounts for tuition and fees, grants, corporate sponsorship payments, and certain auxiliary activities received prior to the end of the fiscal year but earned in a subsequent accounting period.

Compensated Absences
The estimated cost of future payouts of annual leave and sick leave that employees have earned for services rendered, and which the employees may be entitled to receive upon termination or retirement, is recorded as a liability.

Pension Plans
Employees of the State System enroll in one of three available retirement plans immediately upon employment. The Commonwealth of Pennsylvania State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS) are governmental cost-sharing multiple-employer defined benefit plans. The Alternative Retirement Plan (ARP) is a defined contribution plan administered by the State System.

Scholarships and Waivers
In accordance with a formula prescribed by the National Association of College and University Business Officers (NACUBO), the State System allocates the cost of scholarships, waivers, and other student financial aid between *Discounts and allowances* (netted against tuition and fees) and *Student aid expense*. Scholarships and waivers of room and board fees are reported in Auxiliary enterprises. The cost of tuition waivers granted to employees is reported as employees' benefits expense.

Income Taxes
The State System and its member universities are tax-exempt; accordingly, no provision for income taxes has been made in the accompanying financial statements.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications
Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on the previously reported net position or changes therein.

New Accounting Standards
GASB has issued several accounting standards that are required to be adopted by the State System in future years. The State System is evaluating the impact of the adoption of these standards on its financial statements as discussed below.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB (other postemployment benefits), as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This statement will require the State System to record its postretirement healthcare liability in the amount equal to the actuarially accrued liability: in its most recent actuarial valuation dated July 1, 2016, the State System's accrued postretirement healthcare liability, as calculated by the actuaries, was $1,106,763,000, but under current GASB requirements, the amount recorded on the balance sheet as a liability at June 30, 2017, was the Net OPEB obligation of $1,145,088,000. The State System expects that the amount recorded on the balance sheet as a postretirement healthcare liability will increase when Statement No. 75 is implemented, but the amount will not be known until the calculation is performed under the new standards. Furthermore, Statement No. 75 will require that the State System record the liability for its employees who participate in the Commonwealth's Retired Employees Health Plan (REHP). Under current GASB standards, the State System does not report a share of the REHP's unfunded liability since the REHP is a multiple-employer cost-sharing plan administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The amount that the State System will have to record as its share of the liability when Statement No. 75 becomes effective is unknown; however, it is expected to have a material negative effect on the State System's balance sheet. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

In June 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. Statement No. 80 requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government (university) is the sole corporate member. The State System has determined that Statement No. 80 does not apply to its component units and has no effect on its financial statements.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements.* Statement No. 81 provides recognition and measurement guidance for gifts received from donors who have transferred the gifts to an intermediary to hold and administer for the government (university) and at least one other beneficiary. An example of a split-interest agreement is a charitable remainder trust. The State System has determined that Statement No. 81 applies to a small number of certain local university investments and will have an immaterial effect on its financial statements. The provisions in Statement No. 81 are effective for reporting periods beginning after December 15, 2016.

In March 2016, GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73.* Statement No. 82 addresses technical issues related to previous GASB guidance on pensions. The State System has determined that Statement No. 82 will have no effect on its financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations.* Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for legally enforceable liabilities associated with the retirement of tangible capital assets. Examples of asset retirements covered under this standard are the decommissioning of a nuclear reactor or the dismantling and removal of sewage treatment plants as required by law. The State System has determined that, based on current regulations, facts, and circumstances, Statement No. 83 will have no effect on its financial statements.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities.* Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments to determine whether an activity should be reported in a fiduciary fund in the financial statements. The State System has determined that Statement No. 84 will have no effect on its financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017.* Statement No. 85 addresses practice issues that have been identified during implementation of certain GASB statements. The State System has determined that Statement No. 85 will have no effect on its financial statements.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues.* Statement No. 86 provides guidance for transactions in which cash and other monetary assets acquired with existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. The State System has determined that Statement No. 86 will have no effect on its financial statements.

In June 2017, GASB issued Statement No. 87, *Leases.* Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In other words, most leases currently classified as operating leases will be accounted for and reported in the same manner as capital leases. The State System has determined that, although Statement No. 87 will change the way it accounts for its operating leases, it will have little, if any, effect on its net position or results of operations. The provisions in Statement No. 87 are effective for reporting periods beginning after December 15, 2019.

(2) Deposits and Investments

On June 30, 2017 and 2016, the carrying amount of the State System's demand and time deposits and certificates of deposit for all funds was $17,868,000 and $20,558,000, respectively, compared to bank balances of $17,354,000 and $20,280,000, respectively. The difference is caused primarily by items in transit. Of the bank balances, $3,684,000 and $4,214,000, respectively, were covered by federal government depository insurance or collateralized by a pledge of U.S. Treasury obligations held by Federal Reserve banks in the name of the banking institutions; $521,000 and $608,000, respectively, were uninsured and uncollateralized; and $13,149,000 and $15,458,000, respectively, were uninsured and uncollateralized but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended. Act 72 allows banking institutions to satisfy the collateralization requirements by pooling eligible investments to cover total public funds on deposit in excess of federal insurance. Such pooled collateral is pledged with the financial institutions' trust departments.

Board of Governors' Policy 1986-02-A: *Investment*, authorizes the State System to invest in obligations of the U.S. Treasury, repurchase agreements, commercial paper, certificates of deposit, banker's acceptances, U.S. money market funds, municipal bonds, corporate bonds, collateralized mortgage obligations (CMOs), asset-backed securities, and internal loan funds. Restricted nonexpendable funds and amounts designated by the Board or university trustees may be invested in the investments described above as well as in corporate equities and approved pooled common funds. For purposes of convenience and expedience, universities use local financial institutions for activities such as deposits of cash. In addition, universities may accept gifts of investments from donors as long as risk is limited to the investment itself. Restricted gifts of investments fall outside the scope of the investment policy.

In keeping with its legal status as a system of public universities, the State System recognizes a fiduciary responsibility to invest all funds prudently and in accordance with ethical and prevailing legal standards. Investment decisions are intended to minimize risk while maximizing asset value. Adequate liquidity is maintained so that assets can be held to maturity. High quality investments are preferred. Reasonable portfolio diversification is pursued to ensure that no single security or investment or class of securities or investments will have a disproportionate or significant impact on the total portfolio. Investments may be made in U.S. dollar-denominated debt of high quality U.S. and non-U.S. corporations. Investment performance is monitored on a frequent and regular basis to ensure that objectives are attained and guidelines are followed.

Safety of principal and liquidity are the top priorities for the investment of the State System's operating funds. Within those guidelines, income optimization is pursued. Speculative investment activity is not allowed: this includes investing in asset classes such as commodities, futures, short-sales, equities, real or personal property, options, venture capital investments, private placements, letter stocks, and unlisted securities.

The State System's operating funds are invested and reinvested in the following types of instruments with qualifications as provided. (See Board of Governors' Policy 1986-02-A: *Investment*, for a complete list of and more details on permissible investments and associated qualifications.)

Investment Categories	**Qualifications/Moody's Ratings Requirements**
United States Government Securities	Together with repurchase agreements, must comprise at least 20% of the market value of the fund.
Repurchase Agreements	Underlying collateral must be direct obligations of the U.S. Treasury and be in the State System's or its agent's custody.
Commercial Paper	P-1 and P-2 notes only, with no more than 5% and 3%, respectively, of the market value of the fund invested in any single issuer. Total may not exceed 20% of the market value of the fund.
Municipal Bonds	Bonds must carry long-term debt rating of A or better. Total may not exceed 20% of the market value of the fund.
Corporate Bonds	15% must carry long-term debt rating of A or better; 5% may be rated Baa2 or better. Total may not exceed 20% of the market value of the fund.
Collateralized Mortgage Obligations (CMOs)	Must be rated Aaa and guaranteed by the U.S. government. Total may not exceed 20% of the market value of the fund.
Asset-Backed Securities	Must be Aaa rated. Total may not exceed 20% of the market value of the fund, with no more than 5% invested in any single issuer.
System Investment Fund Loans (university loans and bridge notes)	Total may not exceed 20% of the market value of the fund, and loan terms may not exceed 5 years.

CMO Risk: CMOs sometimes are based on cash flows from interest-only (IO) payments or principal-only (PO) payments and are sensitive to prepayment risks. The CMOs in the State System's portfolio do not have IO or PO structures; however, they are subject to extension or contraction risk based on movements in interest rates.

Moody's Rating: The State System uses ratings from Moody's Investors Service, Inc., to indicate the credit risk of investments; i.e., the risk that an issuer or other counterparty to an investment will not fulfill its obligations. An *Aaa* rating indicates the highest quality obligations with minimal credit risk. Ratings that begin with *Aa* indicate high quality obligations subject to very low credit risk; ratings that begin with *A* indicate upper-medium-grade obligations subject to low credit risk; and ratings that begin with *Baa* indicate medium-grade obligations, subject to moderate credit risk, that may possess certain speculative characteristics. Moody's appends the ratings with numerical modifiers *1*, *2*, and *3*, with *1* indicating a higher ranking and *3* indicating a lower ranking within the category. For short-term obligations, a rating of *P-1* indicates that issuers have a superior ability to repay short-term debt obligations, and a rating of *P-2* indicates that issuers have a strong ability to repay short-term debt obligations.

Modified Duration: The State System denotes interest rate risk, or the risk that changes in interest rates will affect the fair value of an investment, using *modified duration*. *Duration* is a measurement in years of how long it takes for the price of a bond to be repaid by its internal cash flows. *Modified duration* takes into account changing interest rates. The State System maintains a portfolio duration target of 1.8 years with an upper limit of 2.5 years for the intermediate-term component of the operating portion of the investment portfolio. The State System's duration targets are not applicable to its long-term investments.

Fair Value Hierarchy: GASB Statement No. 72, *Fair Value Measurement and Application*, requires that investments be classified according to a "fair value hierarchy." With respect to Statement No. 72's fair value hierarchy, GASB defines "inputs" as "the assumptions that market participants would use when pricing an asset or liability, including assumptions about risk." Statement No. 72 further categorizes inputs as *observable* or *unobservable*: *Observable inputs* are "inputs that are developed using market data, such as publicly available information about actual events or transactions, and which reflect the assumptions that market participants would use when pricing an asset or liability"; *Unobservable inputs* are "inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing an asset or liability."

Statement No. 72's fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three "levels":

Level 1: Investments whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market, such as stocks listed in the S&P 500 or NASDAQ. If an up-to-date price of the investment can be found on a major exchange, it is a Level 1 investment.

Level 2: Investments whose values are based on their quoted prices in inactive markets or whose values are based on models, and the inputs to those models are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Investments that trade infrequently, and as a result do not have many reliable market prices. Valuations of Level 3 investments typically are based on management assumptions or expectations. For example, a private equity investment or complex derivative would likely be a Level 3 investment.

In addition, the fair value of certain investments that do not have a readily determinable fair value is classified as *NAV*, meaning Net Asset Value per share, when the fair value is calculated in a manner consistent with the Financial Accounting Standards Board's measurement principles for investment companies.

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Securities classified in Level 3 of the fair value hierarchy lack an independent pricing source and so are valued using an internal fair value as provided by the investment manager.

Commonfund investments, held locally by some of the universities, are valued based upon the unit values (NAV) of the funds held by the universities at year end. Unit values are based upon the underlying assets of the funds derived from inputs principally from or corroborated by observable market data, by correlation, or other means. Redemption restrictions for the Commonfund vary, depending upon the type of fund in which the universities have invested, and are restricted to withdrawals only on a weekly basis or the last business day of the month. All withdrawals require five days' notice.

State System Pooled Deposits and Investments
The carrying values (fair values) of deposits and investments for the State System's pooled funds in M&T Bank on June 30, 2017 and 2016, follow.

State System Pooled Deposits and Investments
June 30, 2017
(in thousands)

	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits				
Money market funds				6,163
Total deposits				6,163
Investments				
Commercial paper	2	P1	0.15	218,032
Government money market mutual fund	2	Aaa	0.00	141,939
U.S. government and agency obligations	2	Aaa	2.10	362,456
Asset-backed securities	2	Aaa	0.85	103,492
Collateralized mortgage obligations (CMOs)	2	Aaa	2.29	199,721
Corporate bonds and notes	2	Aaa	0.38	6,011
	2	Aa1	0.51	8,710
	2	Aa2	0.75	7,734
	2	Aa3	0.97	13,332
	2	A1	1.38	62,803
	2	A2	1.53	56,579
	2	A3	1.87	45,265
	2	Ba1	0.25	3,140
	2	Baa1	1.70	35,555
	2	Baa2	1.74	22,805
	2	Baa3	0.00	726
Total investments				1,288,300
Total deposits and investments				$1,294,463

State System Pooled Deposits and Investments
June 30, 2016
(in thousands)

	Fair Value Hierarchy Level	Moody's Rating (if applicable)	Modified Duration (if applicable)	Fair Value
Deposits				
Demand and time deposits				$28
Money market funds				5,296
Total deposits				5,324
Investments				
Commercial paper	2	P1	0.17	265,251
Government money market mutual fund	2	Aaa	0.00	79,979
U.S. government and agency obligations	2	Aaa	2.45	414,573
Asset-backed securities	2	Aaa	0.48	93,876
	2	P1	0.15	14,988
Collateralized mortgage obligations (CMOs)	2	Aaa	2.15	193,070
Corporate bonds and notes	2	Aaa	1.34	6,197
	2	Aa1	1.33	6,740
	2	Aa2	1.41	9,670
	2	Aa3	1.51	3,332
	2	A1	1.26	63,506
	2	A2	1.33	66,345
	2	A3	2.54	36,713
	2	Baa1	1.91	27,436
	2	Baa2	0.99	21,771
	2	Baa3	0.00	727
Total investments				1,304,174
Total deposits and investments				$1,309,498

Of the investments noted above at June 30, 2017 and 2016, $17,381,000 and $13,527,000, respectively, were held by a trustee to be used for projects funded under the Pennsylvania Higher Educational Facilities Authority/State System of Higher Education bond issues (note 8). Such investments are made subject to the restrictions of the bond indenture and may be liquidated only for the payment of costs associated with the projects described in the bond indenture.

University Local Deposits and Investments

The carrying values (fair values) of local university deposits and investments on June 30, 2017 and 2016, follow.

University Local Deposits and Investments
June 30, 2017
(in thousands)

	Fair Value Hierarchy Level	**Moody's Rating** (if applicable)	**Modified Duration** (if applicable)	**Fair Value**
Deposits				
Demand and time deposits				$11,691
Certificates of deposit				14
Total deposits				11,705
Investments				
U.S. government and agency obligations	2	N/A	0.51	100
Bond mutual funds	1		5.36	1,058
	2		5.61	1,321
	NAV		4.85	11,457
Debt securities	2	Aa1	4.20	25
	2	Aa2	0.99	55
Equity/balanced mutual funds	1			5,932
	2			5,993
	3			9,361
	NAV			21,692
Common stock	1			2,489
Total investments				59,483
Total deposits and investments				$71,188

University Local Deposits and Investments
June 30, 2016
(in thousands)

	Fair Value Hierarchy Level	**Moody's Rating** (if applicable)	**Modified Duration** (if applicable)	**Fair Value**
Deposits				
Demand and time deposits				$15,220
Certificates of deposit				14
Total deposits				15,234
Investments				
U.S. government and agency obligations	2	Aaa	0.47	164
Bond mutual funds	2		4.98	1,744
	NAV		4.43	11,143
Debt securities	2	AA	1.10	25
	2	Aa1	5.25	26
	2	Aa2	2.76	31
Equity/balanced mutual funds	1			2,385
	2			3,345
	3			7,006
	NAV			23,267
Common stock	1			2,319
Total investments				51,455
Total deposits and investments				$66,689

The universities are beneficiaries of trust funds held by others with an approximate fair value of $4,316,000 and $4,087,000 on June 30, 2017 and 2016, respectively. Since the universities have neither possession nor control of these trusts, the principal is not included in the accompanying balance sheet.

(3) Capital Assets

The classifications of capital assets and related depreciation at June 30, 2017 and 2016, follow.

(in thousands)

	Balance June 30, 2015	2015/16 Additions	2015/16 Retirements/ Adjustments	Balance June 30, 2016	2016/17 Additions	2016/17 Retirements/ Adjustments	Balance June 30, 2017
Land	$32,360	-	-	$32,360	-	-	$32,360
Construction in progress	99,144	$56,475	($75,607)	80,012	$140,455	($37,164)	183,303
Total capital assets not being depreciated	131,504	56,475	(75,607)	112,372	140,455	(37,164)	215,663
Buildings, including improvements	2,056,185	101,691	55,587	2,213,463	209,277	9,975	2,432,715
Improvements other than buildings	274,779	7,472	2,885	285,136	6,383	6,678	298,197
Equipment and furnishings	454,128	24,278	(8,059)	470,347	25,208	(7,582)	487,973
Library books	81,940	869	(1,495)	81,314	731	(1,311)	80,734
Total capital assets being depreciated	2,867,032	134,310	48,918	3,050,260	241,599	7,760	3,299,619
Less accumulated depreciation:							
Buildings and improvements	(842,958)	(82,671)	8,923	(916,706)	(90,456)	11,118	(996,044)
Land improvements	(131,524)	(9,355)	1,593	(139,286)	(10,526)	100	(149,712)
Equipment and furnishings	(361,207)	(27,789)	9,681	(379,315)	(29,563)	13,182	(395,696)
Library books	(73,663)	(1,868)	1,495	(74,036)	(1,723)	1,311	(74,448)
Total accumulated depreciation	(1,409,352)	(121,683)	21,692	(1,509,343)	(132,268)	25,711	(1,615,900)
Total capital assets being depreciated, net	1,457,680	12,627	70,610	1,540,917	109,331	33,471	1,683,719
Capital assets, net	$1,589,184	$69,102	($4,997)	$1,653,289	$249,786	($3,693)	$1,899,382

(4) Leases

Total rent expense for the State System operating leases amounted to $15,132,000 and $15,955,000 for the years ended June 30, 2017 and 2016, respectively.

Capital assets acquired through leases that have been capitalized are as follows.

(in thousands)

	June 30, 2017	June 30, 2016
Cost:		
Buildings	$76,305	$76,431
Equipment	3,648	3,074
Total	$79,953	$79,505
Accumulated Depreciation:		
Buildings	$42,302	$38,027
Equipment	1,670	1,501
Total	$43,972	$39,528

Future minimum payments, by year and in the aggregate, under capital and noncancelable operating leases, with initial or remaining terms of one year or more, are as follows.

(in thousands)

	Operating Leases	Capital Leases
2018	$8,748	$5,768
2019	6,063	5,713
2020	5,089	5,404
2021	3,240	5,276
2022	2,369	5,035
Thereafter	65,975	32,479
Total minimum lease payments	$91,484	59,675
Amount representing interest on capital leases		13,369
Present value of net minimum capital lease payments		$46,306

Changes in the liability for capital leases in fiscal years 2017 and 2016 follow.

(in thousands)

Year	Beginning Balance	Capital Lease Additions	Capital Lease Payments	Ending Balance
2016	$51,592	$431	$3,377	$48,646
2017	$48,646	$1,348	$3,688	$46,306

(5) Pension Benefits

Employees of the State System enroll in one of three available retirement plans immediately upon employment: the Commonwealth of Pennsylvania State Employees' Retirement System (SERS), the Public School Employees' Retirement System (PSERS), or the Alternative Retirement Plan (ARP).

Following is the total of the State System's pension liabilities, deferred outflows and inflows of resources related to pensions, and the pension expense for the fiscal years ended June 30, 2017 and 2016.

(in thousands)

	SERS		PSERS		ARP		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Net pension liabilities	**$931,620**	**$858,417**	**$90,838**	**$80,220**	**$0**	**$0**	**$1,022,458**	**$938,637**
Deferred outflows of resources:								
Difference between expected and actual experience	$13,448	$17,381	–	–	–	–	$13,448	$17,381
Net difference between projected and actual investment earnings on pension plan investments	78,293	87,404	$5,063	–	–	–	83,356	87,404
Changes in assumptions	56,905	25,503	3,279	–	–	–	60,184	25,503
Difference between employer contributions and proportionate share of contributions	–	–	555	$568	–	–	555	568
Changes in proportion	14,478	–	2,576	3,550	–	–	17,054	3,550
Contributions after the measurement date	51,532	41,639	7,107	6,012	–	–	58,639	47,651
Total deferred outflows of resources	**$214,656**	**$171,927**	**$18,580**	**$10,130**	**$0**	**$0**	**$233,236**	**$182,057**
Deferred inflows of resources:								
Difference between expected and actual experience	20,844	–	$757	$331	–	–	$21,601	$331
Net difference between projected and actual investment earnings on pension plan investments	–	–	–	162	–	–	–	162
Difference between employer contributions and proportionate share of contributions	$4,323	$2,389	–	–	–	–	4,323	2,389
Changes in proportion	19,754	26,207	662		–	–	20,416	26,207
Total deferred inflows of resources	**$44,921**	**$28,596**	**$1,419**	**$493**	**$0**	**$0**	**$46,340**	**$29,089**
Pension expense	**$130,551**	**$103,982**	**$20,223**	**$16,035**	**$45,343**	**$43,933**	**$196,117**	**$163,950**
Contributions recognized by pension plans	**$83,754**	**$69,021**	**$7,107**	**$6,012**	**N/A**	**N/A**	**$90,861**	**$75,033**

The State System will recognize the $51,532,000 reported as 2017 SERS deferred outflows of resources resulting from pension contributions after the measurement date, and the $7,107,000 reported as 2017 PSERS deferred outflows of resources resulting from pension contributions after the measurement date, as reductions of the respective net pension liabilities in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows.

(in thousands)

	Amortization	
Fiscal Year Ended	**SERS**	**PSERS**
June 30, 2018	$36,967	$2,462
June 30, 2019	$36,967	$2,462
June 30, 2020	$32,224	$3,354
June 30, 2021	$10,710	$1,776
June 30, 2022	$1,335	$0

SERS

Plan Description

SERS is the administrator of a cost-sharing multiple-employer defined benefit plan established by the Commonwealth to provide pension benefits for employees of state government and certain independent agencies. SERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. Membership in SERS is mandatory for most state employees. Members and employees of the General Assembly, certain elected or appointed officials in the executive branch, department heads, and certain employees in the field of education are not required, but are given the option, to participate. SERS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the SERS website at www.sers.state.pa.us.

Benefits Provided

SERS provides retirement, death, and disability benefits. Article II of the Commonwealth's Constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly. Cost of Living Adjustments (COLA) are provided ad hoc at the discretion of the General Assembly.

Employees who were hired prior to January 1, 2011, and retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal annual retirement benefit; members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50 with at least three years of service. Act 120 of 2010 (Act 120) preserved all benefits in place for members, but mandated a number of benefit reductions for new members effective January 1, 2011. The benefit reduction included a new class of membership that accrues benefits at 2% of members' final average salary instead of the previous 2.5%. The vesting period changed from 5 to 10 years of credited service, and the option to withdraw lump-sum accumulated deductions was eliminated. The new normal retirement age is 65 for most employees and 55 for members of the General Assembly and certain employees classified in hazardous duty positions.

According to the State Employees' Retirement Code (SERC), all obligations of SERS will be assumed by the Commonwealth should SERS terminate.

Contributions

The contribution rate for both active members and the State System depends upon when the active member was hired and what benefits class was selected. Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions on behalf of all active members and annuitants to fund the liabilities and provide the annuity reserves required to pay benefits. The SERS funding policy, as set by the SERS Board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS' funding valuation, expressed as a percentage of annual retirement covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. Act 120, however, imposed rate increase collars (limits on annual rate increases) on employer contributions. The collar for Commonwealth fiscal year 2015/16 was 4.5% and will no longer apply effective July 1, 2017.

The State System contributed at actuarially determined rates of between 20.70% and 29.95% of active members' annual covered payroll at June 30, 2017. The State System's contributions to SERS for the years ended June 30, 2017, 2016, and 2015, were $83,754,000, $69,021,000, and $57,234,000, respectively, equal to the required contractual contribution.

Contribution rates for most active members is 6.25% of gross salary. The contribution rate for other members ranges between 5% and 9.3% of salary, depending upon when the member was hired and what class of membership was elected.

Assumptions
The total SERS pension liabilities used to calculate the net pension liabilities were determined by actuarial valuations as of December 31, 2016, using the following actuarial assumptions, applied to all periods included in the measurement.

- Entry age actuarial cost method.
- Straight-line amortization of investments over five years and amortization of assumption changes and noninvestment gains/losses over the average expected remaining service lives of all employees that are provided benefits.
- Inflation of 2.60%.
- Investment return of 7.25%, net of expenses and including inflation.
- Salary increases based on an average of 5.60%, with a range of 3.70% to 8.90%, including inflation.
- Asset valuation using fair (market) value.
- Mortality rates based on the projected RP-2000 Mortality Tables, adjusted for actual plan experience and future improvement.
- Ad hoc cost of living adjustments (COLAs).

Some of the methods and assumptions mentioned above are based on the *18th Investigation of Actuarial Experience*, an actuarial experience study conducted by SERS to determine whether the assumptions used in its annual actuarial valuations remain accurate based on current and anticipated demographic trends and economic conditions. Published in March 2016, it analyzed experience from 2011 through 2015. The actuary, under oversight of the SERS Board, reviewed economic assumptions (such as the assumed future investment returns and salary increases) as well as demographic assumptions (such as employee turnover, retirement, disability, and death rates). Some assumption adjustments increased projected cost and some decreased projected cost, but the overall result was a slight increase to the net pension liability.

The long-term expected real rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of manager fees and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in SERS' current and target asset allocation as of December 31, 2016, are summarized below.

Asset Class	Target Allocation	Long-Term Real Rate of Return
Private equity	16.00%	8.00%
Global public equity	43.00%	5.30%
Real assets	12.00%	5.44%
Hedge funds	12.00%	4.75%
Fixed income	14.00%	1.63%
Cash	3.00%	(0.25)%
	100.00%	

The discount rate used to measure the total SERS pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary and as set by statute. Based on those assumptions, SERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active SERS members. The long-term expected rate of return on SERS' investments, therefore, was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the State System's proportionate share of the SERS net pension liability calculated using the discount rate of 7.25%, as well as what the SERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate.

Sensitivity of the State System's Proportionate Share of the SERS Net Pension Liability to Changes in the Discount Rate
(in thousands)

1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
$1,152,923	$931,620	$742,106

Fiduciary Net Position
The fiduciary net positions of SERS, as well as additions to and deductions from SERS fiduciary net positions, have been determined on the same basis as they are reported in the SERS financial statements, which can be found at www.sers.state.pa.us. The plan schedules of SERS are prepared using the accrual basis of accounting and economic resources measurement focus in accordance with U.S. GAAP as prescribed by GASB. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. Detailed information on investment valuation can be found in the SERS financial statements. Management of SERS has made certain estimates and assumptions relating to employer allocation schedules, and actual results could differ.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2017, the amount recognized as the State System's proportionate share of the SERS net pension liability, measured at December 31, 2016, was $931,620,000. At June 30, 2016, the amount recognized as the State System's proportionate share of the SERS net pension liability, measured at December 31, 2015, was $858,417,000.

The allocation percentage assigned to each participating employer is based on a projected-contribution method. For the allocation of the 2016 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2017/18, from the December 31, 2016, funding valuation, to the expected funding payroll. For the allocation of the 2015 amounts, this methodology applies the most recently calculated contribution rates for fiscal year 2016/17, from the December 31, 2015, funding valuation, to the expected funding payroll. At the December 31, 2016, measurement date, the State System's proportion was 4.837%, an increase of 0.12% from its proportion calculated as of the December 31, 2015, measurement date.

PSERS
Plan Description
PSERS is a governmental cost-sharing multiple-employer defined benefit pension plan that provides retirement, disability, and death benefits to public school employees of the Commonwealth. The members eligible to participate in PSERS include all full-time public school employees, part-time hourly public school employees who render at least 500 hours of service in the school year, and part-time per diem public school employees who render at least 80 days of service in the school year in any of the reporting entities in Pennsylvania. The Public School Employees' Retirement Code (Act No. 96 of October 2, 1975, as amended) (24 Pa. C.S. §§8101–8535) (the Code) is the authority by which PSERS benefits provisions and contribution requirements are established. The Commonwealth's General Assembly has the authority to amend the benefit terms by passing bills in the Senate and House of Representatives and sending them to the Governor for approval. The Code requires contributions by active members, the employer (State System), and the Commonwealth. PSERS is a component unit of the Commonwealth and is included in the Commonwealth's financial report as a pension trust fund. PSERS issues a comprehensive annual financial report that may be obtained at www.psers.state.pa.us.

Benefits Provided
Members who joined prior to July 1, 2011, are eligible for monthly retirement benefits upon reaching age 62 with at least one year of credited service, age 60 with 30 or more years of credited service, or any age with 35 or more years of service. Act 120 preserved the benefits of members who joined prior to July 1, 2011, and introduced benefit reductions for individuals who become new members on or after July 1, 2011, by creating two new membership classes: Class T-E and Class T-F. To qualify for normal retirement, Class T-E and Class T-F members must complete a minimum of 35 years of service with a combination of age and service that totals 92 or greater, or they must work

until age 65 with a minimum of three years of service.

Depending upon membership class, benefits are generally 2% or 2.5% of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. Members who joined prior to July 1, 2011, vest after completion of five years of service and may elect early retirement benefits. Class T-E and Class T-F members vest after completion of 10 years of service.

Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits.

Death benefits are payable upon the death of an active member who has reached age 62 with at least one year of credited service (age 65 with at least three years of credited service for Class T-E and Class T-F members) or has at least five years of credited service (10 years for Class T-E and Class T-F members). Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Member Contributions
Active members who joined PSERS prior to July 22, 1983, contribute at 5.25% (Class T-C members) or at 6.50% (Class T-D members) of the member's qualifying compensation. Members who joined PSERS on or after July 22, 1983, and who were active or inactive as of July 1, 2001, contribute at 6.25% (Class T-C) or at 7.5% (Class T-D) of the member's qualifying compensation. Members who joined PSERS after June 30, 2001, and before July 1, 2011, contribute at 7.5% (Class T-D). For these hires and for members who elected Class T-D, the 7.5% contribution rate began with service rendered on or after January 1, 2002. Members who joined PSERS after June 30, 2011, contribute at the rate of 7.5% (Class T-E) or 10.3% (Class T-F) of their qualifying compensation. Class T-E and Class T-F members are subject to a "shared risk" provision in Act 120 that could cause the rate in future years to fluctuate between 7.5% and 9.5% for Class T-E and 10.3% and 12.3% for Class T-F.

Employer Contributions
The State System's contractually required contribution rate for PSERS for fiscal year ended June 30, 2017, was 29.2% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Per §8327 of the Code, the Commonwealth is required to contribute 50% of the contribution rate directly to PSERS on behalf of the State System, meaning that the amount that the State System actually contributed was 14.6% of covered payroll. The State System's contribution to PSERS for the year ending June 30, 2017, June 30, 2016, and June 30, 2015 was $7,107,000, $6,012,000, and $5,236,000, respectively, equal to the required contractual contribution.

Actuarial Assumptions
The total PSERS pension liability as of June 30, 2016, was determined by rolling forward PSERS' total pension liability as of the June 30, 2015, actuarial valuation to June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement.

- Actuarial cost method is entry age normal, level percent of pay.
- Inflation of 2.75%.
- Investment return of 7.25%, including inflation.
- Salary increases based on an effective average of 5.0%, which comprises a 2.75% allowance for inflation and 2.25% for real wage growth and merit or seniority increases.
- Mortality rates based on the RP-2000 Combined Healthy Annuitant Tables (male and female) with age set back three years for both males and females; for disabled annuitants, the RP-2000 Combined Disabled Tables (male and female) with age set back seven years for males and three years for females.

The actuarial assumptions used in the June 30, 2016, valuation were based on the experience study that was performed for the five-year period ending June 30, 2015. The recommended assumption changes based on this experience study were adopted by the PSERS Board of Trustees at its June 10, 2016, meeting and were effective beginning with the June 30, 2016, actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

PSERS' policy in regard to the allocation of invested plan assets is established and may be amended by the PSERS Board of Trustees. Plan assets are managed with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension. Following is the PSERS Board of Trustees' adopted asset allocation policy and best estimates of geometric real rates of return for each major asset class as of June 30, 2016.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global public equity	22.5%	5.3%
Fixed income	28.5%	2.1%
Commodities	8.0%	2.5%
Absolute return	10.0%	3.3%
Risk parity	10.0%	3.9%
Infrastructure/MLPs	5.0%	4.8%
Real estate	12.0%	4.0%
Alternative investments	15.0%	6.6%
Cash	3.0%	0.2%
Financing (LIBOR)	(14.0%)	0.5%
	100.0%	

The discount rate used to measure the total PSERS pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, PSERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on PSERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

The following presents the State System's proportionate share of the PSERS net pension liability calculated using the discount rate of 7.25%, as well as what the PSERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate.

Sensitivity of the State System's Proportionate Share of the PSERS Net Pension Liability to Changes in the Discount Rate
(in thousands)

1% Decrease 6.25%	Current Rate 7.25%	1% Increase 8.25%
$111,119	$90,838	$73,795

Fiduciary Net Position
For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions and pension expense, the fiduciary net position of PSERS and additions to or deductions from PSERS' fiduciary net position have been determined on the same basis as they are reported in the PSERS' financial statements. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Detailed information about PSERS' fiduciary net position is available in the PSERS Comprehensive Annual Financial Report, which can be found at www.psers.state.pa.us.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
The amount recognized as the State System's proportionate share of the PSERS net pension liability, plus the related PSERS pension support provided by the Commonwealth, is as follows.

(in thousands)	2017	2016
Total PSERS net pension liability associated with the State System	$181,676	$160,440
Commonwealth's proportionate share of the PSERS net pension liability associated with the State System	(90,838)	(80,220)
State System's proportionate share of the PSERS net pension liability	$90,838	$80,220

PSERS measured the net pension liability as of June 30, 2016. The total PSERS pension liability used to calculate the net pension liability was determined by rolling forward the total pension liability calculated as of June 30, 2015, to June 30, 2016. PSERS calculated the employer's proportion of the net pension liability using the employer's one-year reported covered payroll in relation to all participating employers' one-year reported covered payroll. At June 30, 2016, the State System's proportion was .1833%, a decrease of .0019% from its proportion calculated as of June 30, 2015.

ARP

The ARP is a defined contribution plan administered by the State System. Benefits equal amounts contributed to the plan plus investment earnings. Act 188 empowers the Board to establish and amend benefits provisions. The State Employees' Retirement Code establishes the employer contribution rate for the ARP, while the Board establishes the employee contribution rates. Active members contribute at a rate of 5% of their qualifying compensation. The State System recognizes annual pension expenditures equal to its contractually required contributions to the plan. The State System's contribution rate on June 30, 2017 and 2016, was 9.29% of qualifying compensation. The contributions to the ARP for the years ended June 30, 2017 and 2016, were $45,343,000 and $43,933,000, respectively, from the State System; and $25,492,000 and $24,022,000, respectively, from active members. No liability is recognized for the ARP.

(6) Postretirement Benefits

State System employees who retire after meeting specified service and age requirements become eligible for participation in one of two defined healthcare benefits plans, referred to here as the *System Plan* and the *Retired Employees Health Program*. These plans include hospital, medical/surgical, and major medical coverage, and provide a Medicare supplement for individuals over age 65.

System Plan

Plan Description

Employee members of the Association of Pennsylvania State College and University Faculties (APSCUF), the State College and University Professional Association (SCUPA), Security Police and Fire Professionals of America (SPFPA), Office and Professional Employees International Union (OPEIU), and nonrepresented employees participate in a single-employer defined benefits healthcare plan administered by the State System (System Plan). The System Plan provides eligible retirees and their eligible dependents with healthcare benefits and tuition waivers at any of the 14 State System universities. Act 188 empowers the Board to establish and amend benefits provisions. The System Plan has no plan assets and no financial report is prepared.

Funding Policy

The contribution requirements of plan members and the State System are established and may be amended by the Board. The System Plan is funded on a pay-as-you-go basis; i.e., premiums are paid to an insurance company and various health maintenance organizations to fund the healthcare benefits provided to current retirees. Tuition waivers are provided by the retiree's sponsoring university as they are granted. The State System paid premiums of $39,241,000 and $40,060,000 for the fiscal years ending June 30, 2017 and 2016, respectively. Plan members receiving benefits contribute at various rates, depending upon when they retire, whether they are eligible for Medicare, the contribution rate in effect on the day of their retirement, the contribution rate for active employees, and applicable collective bargaining agreements. Following are the contribution rates of plan members as of June 30, 2017.

- Eligible plan members receiving benefits who retired prior to July 1, 2005, are not required to make contributions.
- Nonfaculty coaches who retired on or after July 1, 2005, pay a percentage of their final annual gross salary at the time of retirement.
- Eligible annuitants who retired on or after July 1, 2005, and prior to July 1, 2008, and who are under age 65 pay the same dollar amount they paid as active employees on the day of retirement. When these annuitants become

eligible for Medicare, they pay 18% of the current cost of their Medicare coverage and current cost of coverage for covered dependents. The rate changes annually, and future adjustments will apply if contributions increase for active employees.

- Eligible annuitants who retire on or after July 1, 2008, pay 18% of the plan premium in effect for active employees on their retirement date. Future adjustments will apply if contributions increase for active employees.
- Employee members of SPFPA, OPEIU, and SCUPA, and nonrepresented employees, hired after January 15, 2016, receive no postretirement benefits.

Total contributions made by plan members were $5,558,000 and $4,866,000, or approximately 12.4% and 10.8% of the total premiums, for the fiscal years ending June 30, 2017 and 2016, respectively.

Annual OPEB Cost and Net OPEB Obligation

The State System's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid annually, is projected to cover normal cost plus the annual portion of the unfunded actuarial liability amortized over 30 years. The following shows the components of the State System's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the State System's net OPEB obligation.

(in thousands)	**June 30, 2017**	**June 30, 2016**
Annual required contribution	$97,652	$102,000
Interest on net OPEB obligation	47,032	44,690
Adjustment to ARC	(66,999)	(58,736)
Annual OPEB cost (expense)	77,685	87,954
Contributions made	(39,240)	(40,060)
Increase in net OPEB obligation	38,445	47,894
Net OPEB obligation at July 1	1,106,643	1,058,749
Net OPEB obligation at June 30	$1,145,088	$1,106,643

The State System's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2017, and the two preceding years were as follows.

(in thousands) Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	$88,547	41.6%	$1,058,749
June 30, 2016	$87,954	45.6%	$1,106,643
June 30, 2017	$77,686	50.5%	$1,145,088

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2016, the most recent actuarial valuation date, was as follows.

(in thousands)	
Actuarial accrued liability (AAL)	$1,106,763
Actuarial value of plan assets	0
Unfunded actuarial accrued liability (UAAL)	$1,106,763
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	$592,245
UAAL as a percentage of covered payroll	187%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016, actuarial valuation, the projected unit credit method was used with a 4.25% investment rate of return, which is the rate expected to be earned on the State System's operating portfolio. The healthcare cost trend rate used was 6.5% in 2016, 6.0% in 2017, and 5.5% in 2018 through 2020, with rates gradually decreasing from 5.4% in 2021 to 3.8% in 2075 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. The UAAL is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at July 1, 2016, was 19 years.

Retired Employees Health Program
Plan Description
Employee members of the American Federation of State, County and Municipal Employees (AFSCME), Pennsylvania Doctors Alliance (PDA), and Pennsylvania Social Services Union (PSSU) participate in the Retired Employees Health Program (REHP), which is sponsored by the Commonwealth and administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF). The REHP provides eligible retirees and their eligible dependents with healthcare benefits. Benefits provisions are established and may be amended under pertinent statutory authority. The REHP neither issues a stand-alone financial report nor is it included in the report of a public employee retirement system or other entity.

Funding Policy
The contribution requirements of plan members covered under collective bargaining agreements are established by the collective bargaining agreements. The contribution requirements of nonrepresented plan members and contributing entities are established and may be amended by the Commonwealth's Office of Administration and the Governor's Budget Office. Plan members who enrolled prior to July 1, 2005, are not required to make contributions. Plan members who enrolled after July 1, 2005, contribute a percentage of their final salary, the rate of which varies based on the plan member's enrollment date. Agency member (employer) contributions are established primarily on a pay-as-you-go basis. In fiscal year 2016/17, the State System contributed $362 for each current active employee per biweekly pay period. The State System made contributions of $31,875,000, $37,026,000, and $30,765,000 for the fiscal years ending June 30, 2017, 2016, and 2015, respectively, equal to the required contributions for the year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(7) WORKERS' COMPENSATION

The State System is self-insured for workers' compensation losses. For claims occurring prior to July 1, 1995, State System universities must pay up to $100,000; for claims occurring on or after July 1, 1995, State System universities must pay up to $200,000. Claims in excess of the self-insurance limits are funded through the Workers' Compensation Collective Reserve Fund (Reserve Fund), to which all State System universities contribute an amount determined by an independent actuarial study. Based on updated actuarial studies, the universities were given a refund of $567,000 from the Reserve Fund during the year ended June 30, 2017, and contributed $372,000 and $1,405,000 to the Reserve Fund during the years ended June 30, 2016, and 2015, respectively.

For the years ended June 30, 2017, 2016, and 2015, the aggregate liability for claims under the self-insurance limit was $8,554,000, $9,345,000, and $9,825,000, respectively. The Reserve Fund assets of $11,814,000, $12,746,000, and $12,724,000 are equal to the liability for claims in excess of the self-insurance limits for the years ended June 30, 2017, 2016, and 2015, respectively. Changes in the workers' compensation claims liability in fiscal years 2017, 2016, and 2015 follow.

(in thousands)

Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2015	$21,710	$5,177	$4,337	$22,550
2016	$22,550	$3,465	$3,924	$22,091
2017	$22,091	$2,313	$4,037	$20,367

(8) COMPENSATED ABSENCES

Changes in the compensated absences liability in fiscal years 2017 and 2016 are as follows.

(in thousands)

Year	Beginning Balance	Current Changes in Estimates	Less Payouts	Ending Balance
2016	$114,640	$9,799	$9,016	$115,423
2017	$115,423	$13,776	$9,673	$119,526

(9) BONDS PAYABLE

Bonds payable on June 30, 2017 and 2016, consisted of several outstanding tax-exempt revenue bond series issued by the Pennsylvania Higher Educational Facilities Authority (PHEFA). In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System has pledged its full faith and credit for the repayment of the bonds. The loan constitutes an unsecured general obligation of the State System. The bonds were issued to provide funds to undertake various capital projects at the universities or to advance refund certain previously issued bonds.

Activity for the various bond series for the years ended June 30, 2017 and 2016, was as follows.

Bonds Payable
June 30, 2017 and 2016
(in thousands)

Description	Original Issuance	Weighted Average Interest Rate	Balance June 30, 2015	2016 Bonds Issued	2016 Bonds Redeemed/ Refunded	Balance June 30, 2016	2017 Bonds Issued	2017 Bonds Redeemed/ Refunded	Balance June 30, 2017	Current Portion
Series AF issued July 2007, final maturity June 2037	$68,230	5.00%	$52,220	-	$52,220	-	-	-	-	-
Series AG issued March 2008, final maturity June 2024	101,335	4.75%	59,630	-	11,485	$48,145	-	$12,075	$36,070	$11,105
Series AH issued July 2008, final maturity June 2038	140,760	4.65%	114,785	-	4,435	110,350	-	4,655	105,695	4,890
Series AI issued August 2008, final maturity June 2025	32,115	4.24%	19,880	-	1,910	17,970	-	1,990	15,980	2,070
Series AJ issued July 2009, final maturity June 2039	123,985	4.87%	100,450	-	5,245	95,205	-	5,685	89,520	6,080
Series AK issued Sept. 2009, final maturity June 2024	47,310	4.00%	28,445	-	3,910	24,535	-	4,080	20,455	4,220
Series AL issued July 2010, final maturity June 2035	135,410	5.00%	82,355	-	7,935	74,420	-	8,000	66,420	5,955
Series AM issued July 2011, final maturity June 2036	119,085	4.62%	103,970	-	4,420	99,550	-	4,655	94,895	4,900
Series AN issued March 2012, final maturity June 2023	76,810	5.00%	71,365	-	8,235	63,130	-	9,430	53,700	9,705
Series AO issued July 2013, final maturity June 2038	30,915	4.39%	28,955	-	1,075	27,880	-	1,105	26,775	1,130
Series AP issued May 2014, final maturity June 2024	46,110	4.55%	43,425	-	2,940	40,485	-	1,200	39,285	1,240
Series AQ issued May 2015, final maturity June 2036	94,975	4.68%	94,975	-	1,880	93,095	-	6,685	86,410	7,480
Series AR issued Sept. 2015, final maturity June 2040	102,365	3.98%	-	$102,365	1,820	100,545	-	2,475	98,070	2,595
Series AS issued June 2016, final maturity June 2037	47,280	3.75%	-	47,280	-	47,280	-	850	46,430	2,135
Series AT issued Sept. 2016, final maturity June 2055	298,110	3.41%	-	-	-	-	$298,110	4,900	293,210	7,100
Total	**$1,464,795**		**$800,455**	**$149,645**	**$107,510**	**$842,590**	**$298,110**	**$67,785**	**$1,072,915**	**$70,605**

Principal and interest requirements to maturity are as follows.

(in thousands)	Principal	Interest	Total
2018	$70,605	$47,403	$118,008
2019	75,360	44,096	119,456
2020	83,055	40,605	123,660
2021	67,165	36,768	103,933
2022	66,665	33,731	100,396
2023–2027	283,415	121,775	405,190
2028–2032	186,885	67,642	254,527
2033–2037	140,410	32,013	172,423
2038–2042	83,235	10,120	93,355
2043–2047	10,720	1,996	12,716
2048–2052	3,340	1,032	4,372
2053–2055	2,060	192	2,252
Total	**$1,072,915**	**$437,373**	**$1,510,288**

(10) Rating Actions

The State System's outstanding bonds are assigned an Aa3 rating from Moody's Investors Service, Inc. and an AA- rating from Fitch Ratings. In August 2017, both Moody's and Fitch revised their outlooks for the ratings from *stable* to *negative.*

(11) Deferred Outflows of Resources and Deferred Inflows of Resources

The classifications of deferred outflows of resources and deferred inflows of resources at June 30, 2017 and 2016, follow.

(in thousands)	June 30, 2017	June 30, 2016
Deferred Outflows of Resources		
Net pension liability related (see note 5)	$233,236	$182,057
Unamortized loss on refunding of debt	7,872	9,164
Total Deferred Outflows of Resources	$241,108	$191,221
Deferred Inflows of Resources		
Net pension liability related (see note 5)	$46,340	$29,089
Unamortized gain on refunding of debt	934	1,073
Total Deferred Inflows of Resources	$47,274	$30,162

(12) Contingencies and Commitments

Contingencies

The nature of the educational industry is such that, from time to time, the State System is exposed to various risks of loss related to torts; alleged negligence; acts of discrimination; breach of contract; labor disputes; disagreements arising from the interpretation of laws or regulations; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system.

The State System receives support from federal and Commonwealth grant programs, primarily for student financial assistance. Entitlement to the resources requires compliance with terms of the grant agreements and applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. As of June 30, 2017, the State System estimates that adjustments, if any, as a result of such audits would not have a material adverse effect on the accompanying financial statements, with the exception of potential adjustments related to Cheyney University of Pennsylvania, as detailed in the following section.

Cheyney University of Pennsylvania
In November 2015, the Middle States Commission on Higher Education (Middle States) placed Cheyney University on probation "because of insufficient evidence that the institution is currently in compliance with Standard 3 (Institutional Resources)." Standard 3 requires, among other things, that an institution demonstrate that it has sufficient resources to support both its programs of study and students' academic progress. The university was given two years to address the deficiencies noted by Middle States. As required, the university submitted monitoring reports that documented its plan for remediation. In June 2017, Middle States required Cheyney to show cause, by September 1, 2017, as to why its accreditation should not be withdrawn. Cheyney timely submitted the required detailed operating plan to Middle States. A decision by Middle States as to whether or not to renew Cheyney University's accreditation is expected by November 17, 2017.

To help the university secure continued accreditation, in August 2017, the Board approved a motion that it will forgive more than $30 million in loans, made to Cheyney from the 13 other universities and the Office of the Chancellor, if the university demonstrates fiscal stability. One-third will be forgiven when Cheyney cuts $7.5 million from its fiscal year 2017/18 budget and maintains a balanced budget for fiscal year 2018/19. The next two-thirds will be forgiven when Cheyney demonstrates a balanced budget in each of the following two fiscal years.

In August 2015, Cheyney University voluntarily self-reported to the U.S. Department of Education (ED) that $29.6 million of federal student financial aid was improperly administered and delivered in fiscal years 2011/12, 2012/13, and 2013/14, covering almost 4,400 student records. The State System has been engaged with the ED since reporting these findings. On April 3, 2017, the university received a response from the ED requiring the university to take specified corrective actions, including submitting file reviews, reconciliations, and updated policies and procedures, and further requiring that Cheyney engage an independent Certified Public Accountant to attest to the file reviews and reconciliations. The university was given 90 days to respond to the request but asked for and was granted an extension to respond until December 31, 2017.

In September 2015 the ED placed the university on Heightened Cash Monitoring 2 (HCM2) status, meaning that the university does not receive federal student financial aid funds in advance, but must use its own cash to grant federal financial aid to its students and then request reimbursement from the ED. After demonstrating compliance with HCM2 requirements, the university received its spring 2016 federal student aid funds in July, but has not yet received its fall 2016 and spring 2017 federal student aid funds, which total $8.9 million. The delay in receipt of funds exacerbates the university's severe cash shortage.

In January 2016, the U.S. Department of Justice (DOJ) notified the State System that it was investigating the application and use of federal student financial aid by Cheyney University and the oversight of the university by the State System. The DOJ requested that the university and State System preserve and produce certain documents. The State System has fully complied with the DOJ's request. No action has been taken at this point by the DOJ, and the possible resulting outcomes from the investigation are uncertain until communication is received from the DOJ.

The university has made cuts to administration and staff, reorganized business and campus operations, and renegotiated contracts with vendors. To help balance the budget and better align academic programs with the future of the university, Cheyney will consider placing some academic programs into moratorium, meaning that they will not accept any new students into the programs. To further this plan, the Board approved limited policy exemptions for Cheyney so that the programs that are placed into moratorium can be immediately discontinued, rather than requiring the programs to remain open until all students in the program have graduated. Instead, affected students will be provided the opportunity either to complete another program at Cheyney or transfer to a similar program at any of the other 13 State System universities to complete their degree. Affected faculty members would continue to teach through the end of the spring 2018 semester and would have preferential hiring rights to vacancies posted at Cheyney and the other 13 universities.

Insurance
The State System is self-insured for workers' compensation up to stated limits (note 7). For all other risks of loss, the State System pays annual premiums to the Commonwealth to participate in its Risk Management Program. The State System does not participate in any public entity risk pools, and

does not retain risk related to any aforementioned exposure, except for those amounts incurred relative to policy deductibles that are not significant. The State System has not significantly reduced any of its insurance coverage from the prior year. Settled claims have not significantly exceeded the State System's insurance coverage in any of the past three years. It is not expected that the resolution of any outstanding claims and litigation will have a material adverse effect on the accompanying financial statements.

Construction Commitments

Authorized expenditures for construction projects unexpended as of June 30, 2017 and 2016, were approximately $52,802,000 and $96,716,000, respectively.

(13) Subsequent Events

In September 2017, PHEFA issued Series AU-1 tax-exempt revenue bonds in the amount of $36,625,000, Series AU-2 tax-exempt revenue bonds in the amount of $76,490,000, and Series AU-3 taxable revenue bonds in the amount of $15,145,000. The net proceeds from the Series AU-1 revenue bonds were used to finance capital projects at several universities. The net proceeds from the Series AU-2 and AU-3 revenue bonds were used to advance refund a portion of the Series AH revenue bonds. The refunding was performed to reduce debt service by approximately $12,700,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $12,000,000. In connection with the bond issuance, the State System entered into a loan agreement with PHEFA under which the State System pledged its full faith and credit for repayment of bonds.

REQUIRED SUPPLEMENTARY INFORMATION

Years Ended June 30, 2017 and 2016
(Unaudited)

Schedule of Funding Progress for the System Plan (OPEB)

(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2013	$0	$1,473,632	$1,473,632	0%	$583,755	252%
July 1, 2014	$0	$1,194,849	$1,194,849	0%	$589,917	203%
July 1, 2016	$0	$1,106,763	$1,106,763	0%	$592,245	187%

Schedule of Funding Progress for the REHP (OPEB)

(in thousands)

The information below relates to the Commonwealth's REHP as a whole; i.e., it is inclusive of all participating Commonwealth agencies and instrumentalities. Nearly all Commonwealth agencies and instrumentalities participate in the REHP.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
July 1, 2013	$82,060	$13,234,040	$13,151,980	.62%	$4,264,000	308%
January 1, 2015	$144,744	$16,134,419	$15,989,675	.90%	$4,289,000	373%
January 1, 2017	$313,226	$16,546,732	$16,233,506	1.90%	$4,485,000	362%

Schedule of Proportionate Share of SERS Net Pension Liability (NPL)

Determined as of SERS December 31 measurement date
(in thousands)

Fiscal Year	State System's Proportion	State System's Proportionate Share	State System's Covered-Employee Payroll	State System's Proportionate Share of NPL as a Percentage of Covered-Employee Payroll	SERS Fiduciary Net Position as a Percentage of Total Pension Liability
2014/15	4.901%	$728,094	$296,967	245%	64.8%
2015/16	4.721%	$858,417	$297,714	288%	58.9%
2016/17	4.837%	$931,620	$300,803	310%	57.8%

SERS Schedule of Contributions

Determined as of State System June 30 fiscal year end
(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by SERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014/15	$57,234	$57,234	$0	$293,506	19.50%
2015/16	$69,021	$69,021	$0	$291,594	23.67%
2016/17	$83,754	$83,754	$0	$301,828	27.75%

Schedule of Proportionate Share of PSERS Net Pension Liability (NPL)

Determined as of PSERS June 30 measurement date
(in thousands)

	PSERS Net Pension Liability						
Fiscal Year	**State System's Proportion**	**State System's Proportionate Share**	**Commonwealth's Proportionate Share**	**Total**	**State System's Covered-Employee Payroll**	**State System's Proportionate Share of NPL as a Percentage of Covered-Employee Payroll**	**PSERS Fiduciary Net Position as a Percentage of Total Pension Liability**
2014/15	.1785%	$70,650	$70,650	$141,350	$45,552	155%	57.2%
2015/16	.1852%	$80,220	$80,220	$160,440	$47,670	168%	54.4%
2016/17	.1833%	$90,838	$90,838	$181,676	$47,485	200%	50.1%

PSERS Schedule of Contributions

Determined as of State System June 30 fiscal year end
(in thousands)

Fiscal Year	Contractually Required Contributions	Contributions Recognized by PSERS	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014/15	$5,236	$5,236	$0	$51,086	10.25%
2015/16	$6,012	$6,012	$0	$48,419	12.41%
2016/17	$7,107	$7,107	$0	$49,518	14.35%

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